

# ***QGOG Constellation S.A.***

*Unaudited Condensed Consolidated Interim  
Financial Statements as of March 31, 2015 and  
and for the Three-Month Period Then Ended  
and Report on Review of Interim Financial  
Statements*

Deloitte Touche Tohmatsu Auditores Independentes

Atendimento Prisma

## REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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To the Board of Directors and Shareholders of  
QGOG Constellation S.A.  
Luxembourg

### ***Introduction***

We have reviewed the accompanying condensed consolidated interim statement of financial position of QGOG Constellation S.A. (the “Company”) as of March 31, 2015, the related condensed consolidated interim statement of operations, statement of comprehensive income, statement of changes in shareholder’s equity and statement of cash flows for the three-month period then ended, and other explanatory notes.

Management is responsible for the preparation and fair presentation of this condensed consolidated interim financial information in accordance with International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

### ***Scope of Review***

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* (“ISRE 2410”). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### ***Basis for Qualified Conclusion***

The Company’s investments in the associates Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. (all together denominated “Investees”), accounted for by the equity method of accounting, are carried at US\$14,266 thousand on the condensed consolidated interim statement of financial position as at March 31, 2015, and the Company’s share of the Investees net loss amounts of US\$16 thousand, are included in the Company’s condensed consolidated interim statement of operations for the three-month period then ended (Note 9). We draw attention to the related Note, which discloses Sete Brasil Participações S.A.’s internal actions (majority shareholder of such Investees) related to the “Lava-Jato” operation being held in Brazil and the alternatives under evaluation in order to improve its short-term liquidity capacity to meet its operational and financing commitments (including those related to the Investees), and then supporting its ability to continue as a going concern.

Until the date of this report, we were unable to obtain sufficient appropriate review evidence about the carrying amount of the Company's investments in the Investees as at March 31, 2015 and the Company's share of the Investees total comprehensive loss for the three-month period then ended. Consequently, we were unable to determine whether any adjustments or additional disclosures to the accompanying footnotes of these Investees balances as at March 31, 2015 and for the three-month period then ended were due necessary at the date of this report.

### ***Qualified Conclusion***

Based on our review, except for the possible effects, if any, of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information does not present fairly, in all material respects, the financial position of the Company as of March 31, 2015, and of its financial performance and its cash flows for the three-month period then ended in accordance with IAS 34, as issued by the IASB.

### ***Emphasis of matter***

#### *Partnership with SBM Holding Inc. - contingent liability*


Without qualifying our conclusion, we draw attention to Note 9 to the condensed consolidated interim financial statements, which discloses the uncertainty related to the outcome of the contingent liability of the Company's investments in associates and joint ventures held with its partner, SBM Offshore N.V. and its subsidiaries, related to operations in Brazil.

#### *Charter and Operate Agreements with Petróleo Brasileiro S.A. - Petrobras*

Without qualifying our conclusion, we draw attention to Note 1 to the condensed consolidated interim financial statements, which discloses the uncertainty in the Company's operations related to the notice received by the Company's subsidiary Queiroz Galvão Óleo e Gás S.A. ("QGOG") from Petrobras on December 29, 2014, mentioning that QGOG has been temporarily suspended from entering into direct contracts and taking part in future bids by its main customer until investigations under CGU ("Brazilian General Comptroller's Office") related to "Lava Jato" operation is concluded.

### ***Other matter***

The consolidated financial statements as of December 31, 2014 and for the year then ended were audited by us and our auditor's report dated March 19, 2015, contained the same qualification described in the "Basis for Qualified Conclusion" paragraph above related to the associates which the major shareholder is Sete Brasil Participações S.A.

  
DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
Rio de Janeiro, Brazil  
May 27, 2015

QGOG CONSTELLATION S.A.UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2015  
(Amounts expressed in thousands of U.S. dollars - US\$)

<u>ASSETS</u>	<u>Note</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	3	188,146	147,079
Short-term investments	4	200,166	83,470
Restricted cash	5	11,924	37,842
Trade and other receivables	6	89,675	102,313
Inventories	7	158,413	161,664
Recoverable taxes	21.a	-	3,284
Deferred mobilization costs		10,427	10,857
Deferred tax assets	21.c	867	1,056
Receivables from related parties	8	12,817	13,042
Other current assets		26,375	28,483
		<u>698,810</u>	<u>589,090</u>
<b>NON-CURRENT ASSETS</b>			
Receivables from related parties	8	323,004	323,960
Other non-current assets		471	523
Investments	9	212,803	222,850
Deferred mobilization costs		21,195	23,864
Deferred tax assets	21.c	6,197	5,747
Property, plant and equipment, net	10	4,440,771	4,448,868
		<u>5,004,441</u>	<u>5,025,812</u>
<b>TOTAL ASSETS</b>		<u><u>5,703,251</u></u>	<u><u>5,614,902</u></u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS OF MARCH 31, 2015  
(Amounts expressed in thousands of U.S. dollars - US\$)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Note</u>	<u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>CURRENT LIABILITIES</b>			
Loans and financings	11	343,043	417,979
Accrued liabilities	12	388,330	390,697
Payroll and related charges		32,867	55,102
Derivatives	15	28,718	28,445
Trade and other payables		31,980	30,650
Payables to related parties	8	3,205	2,719
Taxes payables	21.b	8,315	3,375
Provisions	13	2,985	1,551
Deferred revenues		32,019	24,505
Other current liabilities		41,570	52,622
		<u>913,032</u>	<u>1,007,645</u>
<b>NON-CURRENT LIABILITIES</b>			
Loans and financings	11	2,126,761	2,016,748
Payables to related parties	8	267,624	265,406
Derivatives	15	21,072	21,748
Deferred revenues		82,452	73,859
Other non-current liabilities		941	1,424
		<u>2,498,850</u>	<u>2,379,185</u>
<b>TOTAL LIABILITIES</b>		<u>3,411,882</u>	<u>3,386,830</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital	16.a	63,200	63,200
Share premium	16.a	766,561	766,561
Transaction costs on issuance of shares		(9,721)	(9,721)
Reserves	16.b/d	(23,452)	(5,407)
Retained earnings		1,483,889	1,405,712
Equity attributable to the owners of the Group		<u>2,280,477</u>	<u>2,220,345</u>
Non-controlling interests	16.e	10,892	7,727
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>2,291,369</u>	<u>2,228,072</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>5,703,251</u>	<u>5,614,902</u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
 FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014  
 (Amounts expressed in thousands of U.S. dollars - US\$, except per share amounts)

	Note	2015	2014
NET OPERATING REVENUE	17	261,050	262,386
COST OF SERVICES	18	<u>(137,489)</u>	<u>(143,766)</u>
GROSS PROFIT		123,561	118,620
General and administrative expenses	18	(8,320)	(11,877)
Other income	19	265	97
Other expenses	19	<u>(1,554)</u>	<u>-</u>
OPERATING PROFIT		113,952	106,840
Financial income	20	2,817	5,251
Financial expenses	20	(28,260)	(33,200)
Net foreign exchange gain/(loss)	20	158	(219)
FINANCIAL EXPENSES, NET		<u>(25,285)</u>	<u>(28,168)</u>
Shares of results of investments	9	4,198	1,237
PROFIT BEFORE TAXES		<u>92,865</u>	<u>79,909</u>
Taxes	21.d	<u>(8,960)</u>	<u>311</u>
PROFIT FOR THE PERIOD		<u><u>83,905</u></u>	<u><u>80,220</u></u>
Profit attributable to the owners of the Group		78,177	77,378
Profit attributable to non-controlling interests		5,728	2,842
Profit per share			
Basic	16.f	0.41	0.41
Diluted	16.f	0.41	0.41

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE  
 INCOME FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014  
 (Amounts expressed in thousands of U.S. dollars - US\$)

	<u>Note</u>	<u>2015</u>	<u>2014</u>
PROFIT FOR THE PERIOD		83,905	80,220
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Attributable to owners of the Group	16.d	(3,132)	(144)
Attributable to non-controlling interests	16.d	<u>(2,563)</u>	<u>(118)</u>
Cash flow hedges fair value adjustments	15/16.d	(5,695)	(262)
Share of investments' other comprehensive loss	9/16.d	(2,725)	(2,685)
Items that will not be reclassified subsequently to profit or loss:			
Foreign currency translation adjustments	16.d	<u>(12,188)</u>	<u>1,672</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>63,297</u></u>	<u><u>78,945</u></u>
Comprehensive income attributable to the owners of the Group		60,132	76,221
Comprehensive income attributable to non-controlling interests		3,165	2,724

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

Atendimento Prisma

## QOGG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014  
 (Amounts expressed in thousands of U.S. dollars - US\$)

	Note	Capital	Share premium	Transaction costs	Reserves			Retained earnings	Equity attributable to the owners of the Company	Equity attributable to non-controlling interests	Total shareholders' equity	
					Legal	Cash flow hedges fair value adjustments	Share of investments' other comprehensive loss					Foreign currency translation adjustments
BALANCE AS OF DECEMBER 31, 2013		63,200	766,561	(9,721)	5,683	5,553	(7,009)	12,237	1,065,781	1,902,285	2,568	1,904,853
Profit for the period		-	-	-	-	-	-	-	77,378	77,378	2,842	80,220
Other comprehensive income for the period	16.d	-	-	-	-	(144)	(2,685)	1,672	-	(1,157)	(118)	(1,275)
Total comprehensive income for the period		-	-	-	-	(144)	(2,685)	1,672	77,378	76,221	2,724	78,945
BALANCE AS OF MARCH 31, 2014		<u>63,200</u>	<u>766,561</u>	<u>(9,721)</u>	<u>5,683</u>	<u>5,409</u>	<u>(9,694)</u>	<u>13,909</u>	<u>1,143,159</u>	<u>1,978,506</u>	<u>5,292</u>	<u>1,983,798</u>
BALANCE AS OF DECEMBER 31, 2014		63,200	766,561	(9,721)	5,683	1,208	(15,330)	3,032	1,405,712	2,220,345	7,727	2,228,072
Profit for the period		-	-	-	-	-	-	-	78,177	78,177	5,728	83,905
Other comprehensive income for the period	16.d	-	-	-	-	(3,132)	(2,725)	(12,188)	-	(18,045)	(2,563)	(20,608)
Total comprehensive income for the period		-	-	-	-	(3,132)	(2,725)	(12,188)	78,177	60,132	3,165	63,297
BALANCE AS OF MARCH 31, 2015		<u>63,200</u>	<u>766,561</u>	<u>(9,721)</u>	<u>5,683</u>	<u>(1,924)</u>	<u>(18,055)</u>	<u>(9,156)</u>	<u>1,483,889</u>	<u>2,280,477</u>	<u>10,892</u>	<u>2,291,369</u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.



QGOG CONSTELLATION S.A.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2015 AND 2014  
 (Amounts expressed in thousands of U.S. dollars - US\$)

	Note	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the period		83,905	80,220
Adjustments to reconcile profit for the period to net cash provided by operating activities:			
Depreciation of property, plant and equipment	10/18	47,971	47,588
Gain on disposal of property, plant and equipment, net	19	(127)	(12)
Share of results of investments	9	(4,198)	(1,237)
Recognition of deferred mobilization costs		2,808	3,535
Recognition of deferred revenues, net of taxes levied		(5,617)	(6,394)
Financial charges on loans and financings	11/20	24,205	27,451
Financial income from related parties, net	8/20	(1,397)	(2,952)
Fair value loss on derivatives	15/20	2,289	3,193
Provision for employee profit sharing plan		3,824	5,839
Other financial expenses, net	20	188	476
Provisions	13/19	1,517	-
Taxes	21.d	8,960	(311)
Changes in working capital:			
Increase in short-term investments		(121,644)	(11,028)
Decrease in trade and other receivables		8,749	6,661
Decrease in receivables from related parties		228	636
Increase in inventories		(5,492)	(9,483)
Decrease in recoverable taxes		3,046	1,139
Decrease/(increase) in deferred mobilization costs		103	(2)
Decrease/(increase) in other assets		1,488	(21,601)
Decrease in payroll and related charges		(18,336)	(25,700)
Increase in trade and other payables		3,690	2,550
Increase/(decrease) in payables to related parties		(8)	3
Increase/(decrease) in taxes payables		(2,805)	556
Increase in deferred revenues		20,960	804
Increase in provisions		4	-
Increase/(decrease) in other liabilities		(9,884)	24,274
Net cash provided by operating activities		<u>44,427</u>	<u>126,205</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments to related parties		2	(44,690)
Proceeds from related parties	8.b	5,060	-
Capital decrease in investments	9	13,375	22,817
Capital contributions in investments	9	(144)	-
Acquisition of property, plant and equipment	10/25	(46,717)	(16,351)
Proceeds from sales of property, plant and equipment	19	164	12
Net cash used in investing activities		<u>(28,260)</u>	<u>(38,212)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payments to related parties		-	7,147
Proceeds from loans and financings	11	170,000	-
Interest paid on loans and financings	11	(9,271)	(10,468)
Cash payments on derivatives	15	(8,387)	(11,667)
Restricted cash	5	25,918	(14,686)
Repayment of principal on loans and financings	11	(153,656)	(85,808)
Net cash provided by (used in) financing activities		<u>24,604</u>	<u>(115,482)</u>
Decrease in cash and cash equivalents		<u>40,771</u>	<u>(27,489)</u>
Cash and cash equivalents at the beginning of the period		147,079	217,531
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>296</u>	<u>(190)</u>
Cash and cash equivalents at the end of the period		<u><u>188,146</u></u>	<u><u>189,852</u></u>

The accompanying notes are an integral part of these unaudited condensed consolidated interim financial statements.

QGOG CONSTELLATION S.A.

## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF MARCH 31, 2015 AND FOR THE THREE-MONTH PERIOD THEN ENDED

(Amounts expressed in thousands of U.S. dollars - US\$, unless otherwise stated)

## 1. GENERAL INFORMATION

QGOG Constellation S.A., (the “Company”) was incorporated in Luxembourg in August 30, 2011 as a “*société anonyme*” (i.e., “public company limited by shares”) and is indirectly controlled by members of the Queiroz Galvão family. The Company has its registered address at 40, Avenue Monterey, L-2163 Luxembourg.

These unaudited condensed consolidated interim financial statements include the Company and its subsidiaries (the “Group”).

The Company’s objective is to hold investments in Luxembourg or foreign countries; to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licenses, and other property, rights and interest in property as deemed necessary, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as deemed necessary, and in particular for shares or securities of any entity purchasing the same; to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding entity, subsidiary, or fellow subsidiary, or any other entity associated in any way with the Company, or the said holding entity, subsidiary or fellow subsidiary, in which the Company has a direct or indirect financial interest, any assistance, loans, advances or guarantees; to borrow and raise funds in any manner and to secure the repayment of any funds borrowed; and finally, to perform any operation that is directly or indirectly related to its purpose. The Company’s fiscal year is from January 1 to December 31.

The Company holds investments in subsidiaries that charter and operate onshore and offshore drilling rigs and drillships for exploration and production entities operating mainly in Brazil. The Group currently charters onshore and offshore drilling rigs and drillships mainly to *Petróleo Brasileiro S.A. (“Petrobras”)* and also to *Karoon Petróleo e Gás Ltda. (“Karoon”)*.

The Group’s fleet is currently comprised of the following drilling rigs and drillships:

Drilling rigs and drillships	Type	Start of operations
QG-I <sup>(1)</sup>	Onshore drilling rig	1981
QG-II	Onshore drilling rig	1981
QG-III	Onshore drilling rig	1987
QG-IV	Onshore drilling rig	1996
QG-V	Onshore drilling rig	2011
QG-VI	Onshore drilling rig	2008
QG-VII	Onshore drilling rig	2008
QG-VIII <sup>(1)</sup>	Onshore drilling rig	2011
QG-IX <sup>(1)</sup>	Onshore drilling rig	2011
Alaskan Star	Offshore drilling rig	1994
Atlantic Star	Offshore drilling rig	1997
Olinda Star	Offshore drilling rig	2009

Drilling rigs and drillships	Type	Start of operations
Gold Star	Offshore drilling rig	2010
Lone Star	Offshore drilling rig	2011
Alpha Star	Offshore drilling rig	2011
Amaralina Star	Drillship	2012
Laguna Star	Drillship	2012
Brava Star	Drillship	Under construction

(1) These onshore drilling rigs are currently without charter and service-rendering agreements and the Group is seeking for new customers.

As of March 31, 2015 and December 31, 2014, the Group presents working capital deficiency in the amounts of US\$214,222 and US\$418,555, respectively, mainly as result of its current investments. As of March 31, 2015, the working capital deficiency is mainly related to the Brava Star drillship construction costs amounting to US\$388,330 (Notes 10 and 12). Management expects to revert this working capital deficiency primarily through committed long-term project financing with a pool of international banks and export credit agencies.

Although the Group has long-term agreements, the operations are indirectly dependent upon conditions in the oil and gas industry and, specifically, on the exploration and production expenditures of oil and gas entities. The demand for charter and operate agreements for drilling and related services provided to the Group's customers is influenced by, among other factors, oil and gas prices, expectations about future prices, the cost of producing and delivering oil and gas, government regulations and local and international political and economic conditions.

#### Brava Star drillship

On November 14, 2012, the Group entered into an agreement with Samsung Heavy Industries Co., Ltd ("Samsung") to design, construct, complete and deliver an ultra-deepwater drillship, the Brava Star drillship. The Brava Star drillship total project cost amounts to approximately US\$660 million. The Group expects Samsung to deliver this ultra-deepwater drillship by May 2015.

On May 26, 2014, the Group signed a three-year agreement to charter and render operational services within the pre-salt area offshore the Brazilian coast, using the Brava Star drillship to the consortium BM-S-11, which is comprised by Petrobras (consortium operator), BG E&P Brasil Ltda. and Petróleos de Portugal - Petrogal, S.A. ("Petrogal"). The operations are expected to start in August 2015.

On November 21, 2014, the Company, through its subsidiary Brava Star Ltd., signed a loan agreement amounting to US\$475 million, as disclosed in Note 11.

#### Onshore drilling rig QG-I charter and service-rendering agreements

On March 21, 2014, the Group signed an agreement to charter and render operational services for President Energy PLC and President Energy Paraguay S.A. with a 210-day term beginning at start of operations. The purpose of the agreement is to drill two oil wells in Paraguay, using the onshore drilling rig QG-I. The first oil well started to be drilled in June 2014. The agreement was terminated in January 2015 and the Group is currently seeking for a new agreement.

*Olinda Star offshore drilling rig new agreement*

On July 14, 2014, the Group signed an agreement with Karoon to charter and render operating services in two oil wells, using the Olinda Star offshore drilling rig. The operations started on October 22, 2014. The agreement had an estimated duration of 120 days with an extension option for another 120 days to drill two optional wells.

The charter and service-rendering agreements were extended to first optional oil well. On April 27, 2015, Karoon notified the Group that will not require the drilling of the second optional oil well (which would represent the fourth oil well in aggregate), pursuant to the provisions of the charter and service-rendering agreements.

*Amendments to Olinda Star offshore drilling rig charter and service-rendering agreements with Petrobras*

On August 26, 2014, the Group signed amendments to the existing charter and service-rendering agreements with Petrobras, in which the duration of the agreements was extended by 150 days from August 2015, including the increase of the contractual amount. These agreements will be effective after the termination of the aforementioned agreement with Karoon.

*Notices received from Petrobras*

On December 29, 2014, Queiroz Galvão Óleo Gás S.A. (“QGOG”), one of the Company’s subsidiaries, received a notice from Petrobras which temporarily suspends QGOG from entering into direct contracts and participating in bids for new contracts. This notice currently does not impact any of the existing contracts between QGOG and Petrobras. QGOG disagrees with this temporary suspension and has already contested this determination in order to reverse it.

On March 10, 2015, QGOG received a notice from Petrobras about the transfer to *Controladoria Geral da União - CGU* (Comptroller General’s Office) of the administrative procedure, in order to avoid duplication of efforts by entities at the federal administration. Petrobras has also informed that it will rely on the conclusion of CGU’s administrative procedure to decide on eventual sanctions or the reversion of the temporary suspension.

The majority of the Group’s fleet is hired under long-term agreements. Moreover, the Group owns offshore fleet that can operate globally and is seeking client diversification and internationalization as part of its strategy, capitalizing on its strong operational track record.

*Gold Star offshore drilling rig scheduled 5-year survey*

On March 20, 2015, Gold Star offshore drilling rig interrupted its activities in order to execute its scheduled 5-year survey and on May 8, 2015, it returned to operate under the current charter and service agreement with Petrobras.

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards 34 *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”), on a basis consistent with the significant accounting policies and critical accounting estimates disclosed in Notes 3 and 4, respectively, to the annual consolidated financial statements as of December 31, 2014 and for the year then ended.

IAS 34 requires the use of certain accounting estimates by the Company’s Management. The unaudited condensed consolidated interim financial statements were prepared based on historical cost, except for certain financial liabilities, which are measured at fair value.

The unaudited condensed consolidated interim financial statements do not include all the information and disclosure items required in the annual consolidated financial statements. Therefore, they must be read together with the Company’s annual consolidated financial statements referring the year ended December 31, 2014, which were prepared according to accounting policies, as described above. There were no changes in the accounting policies and critical accounting estimates adopted on December 31, 2014 and March 31, 2015.

The consolidated financial statements incorporate the Company and its subsidiaries. There were no changes in the consolidated entities and investments disclosed in Note 5 to the annual consolidated financial statements as of December 31, 2014 and for the year then ended.

The following new and amended IFRS have been effective since January 1, 2015 or will be effective on January 1, 2016 and 2018 and their adoption, where applicable, did not or will not have significant effect on the unaudited condensed consolidated interim financial statements:

Standard	Description	Effective date for annual period beginning on or after
IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations	Amendments resulting from September 2014 Annual Improvements to IFRSs	January 1, 2016
IFRS 7 - Financial Instruments: Disclosures	Amendments resulting from September 2014 Annual Improvements to IFRSs	January 1, 2016
IFRS 9 - Financial Instruments	Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	January 1, 2018
IFRS 10 - Consolidated Financial Statements	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture; and Amendments regarding the application of the consolidation exception	January 1, 2016
IFRS 11 - Accounting for Acquisitions of Interests in Joint Operations	Amendments regarding the accounting for acquisitions of an interest in a joint operation	January 1, 2016
IFRS 12 - Disclosure of Interests in Other Entities	Amendments regarding the application of the consolidation exception	January 1, 2016
IFRS 14 - Regulatory Deferral Accounts	Permits an entity that is a first-time adopter of IFRSs to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRSs and in subsequent financial statements.	January 1, 2016

Standard	Description	Effective date for annual period beginning on or after
IFRS 15 - Revenue from Contracts with Customers	Provides a single, principles based 5-step model to be applied to all contracts with customers. The 5-steps in the model are as follows:  1) Identify the contract with the customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contracts; and 5) Recognise revenue when (or as) the entity satisfies a performance obligation.	January 1, 2017
IAS 1 - Presentation of Financial Statements	Amendments resulting from the disclosure initiative	January 1, 2016
IAS 16 - Property, Plant and Equipment	Amendments regarding the clarification of acceptable methods of depreciation and amortisation; and Amendments bringing bearer plants into the scope of IAS 16	January 1, 2016
IAS 19 - Employee Benefits	Amendments resulting from September 2014 Annual Improvements to IFRSs	January 1, 2016
IAS 27 - Separate Financial Statements (as amended in 2011)	Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements	January 1, 2016
IAS 28 - Investments in Associates and Joint Ventures	Amendments regarding the sale or contribution of assets between an investor and its associate or joint venture; and Amendments regarding the application of the consolidation exception	January 1, 2016
IAS 34 - Interim Financial Reporting	Amendments resulting from September 2014 Annual Improvements to IFRSs	January 1, 2016
IAS 38 - Intangible Assets	Amendments regarding the clarification of acceptable methods of depreciation and amortization	January 1, 2016
IAS 41 – Agriculture	Amendments bringing bearer plants into the scope of IAS 16	January 1, 2016

### 3. CASH AND CASH EQUIVALENTS

	March 31, 2015	December 31, 2014
Cash and bank deposits	70,722	74,097
Cash equivalents <sup>(*)</sup>	<u>117,424</u>	<u>72,982</u>
Total	<u>188,146</u>	<u>147,079</u>

(\*) Cash equivalents refer to time deposits with original maturities of less than 90 days. These investments are highly liquid and convertible into known amounts of cash and are subject to a minimum risk of changes in value.

Cash equivalents are comprised by time deposits as follows:

Financial institution	Average interest rate (per annum)	March 31, 2015	December 31, 2014
Itaú BBA Nassau	0.20%	48,072	47,558
Citibank	0.10%	65,019	25,001
Bradesco S.A. Grand Cayman	0.13%	<u>4,333</u>	<u>423</u>
		<u>117,424</u>	<u>72,982</u>

#### 4. SHORT-TERM INVESTMENTS

Short-term investments	Original currency	Financial institution	Average interest rate (per annum)	March 31, 2015	December 31, 2014
Time deposits	U.S. Dollars	HSBC Bank	0.05%	1,609	1,608
Time deposits	U.S. Dollars	Citibank	0.11%	943	-
Time deposits	U.S. Dollars	Itaú BBA Nassau	0.80%	57,066	-
Time deposits	U.S. Dollars	ING Bank	0.16%	13,244	32,669
		Bradesco Grand Cayman	1.31%	50,007	-
Time deposits	U.S. Dollars	Banco do Brasil S.A	0.95%	8,000	-
Time deposits	U.S. Dollars	Deutsche Bank	0.11%	46,995	17,887
CDB <sup>(i)</sup>	Brazilian Reais	Banco do Nordeste do Brasil S.A - BNB	101% of CDI	19,808	14,310
	Brazilian Reais		99.5% of		
Repurchase agreements <sup>(iii)</sup>	Reais	Bradesco S.A.	CDI	<u>2,494</u>	<u>16,996</u>
Total				<u>200,166</u>	<u>83,470</u>

(i) Brazilian Bank Deposit Certificate. – CDB.

(ii) Brazilian Interbank Deposit Certificate. – CDI.

(iii) Refer to agreements in which the financial institutions have a commitment to repurchase the asset back from the Group within a specified time limit.

#### 5. RESTRICTED CASH

Under certain of the Group's project finance arrangements, surplus cash from operations is held in designated reserve accounts, up to a level determined in relation to the future debt servicing requirements of the project financing arrangements.

These accounts refer to the financing agreements related to the construction of Lone Star and Gold Star offshore drilling rigs, with original maturity of less than one year (Note 11).

The amounts in these accounts are comprised by time deposits as follows:

Restricted cash	Financial institution	Average interest rate (per annum)	March 31, 2015	December 31, 2014
Time deposits	ING Bank	0.20%	<u>11,924</u>	<u>37,842</u>
			<u>11,924</u>	<u>37,842</u>

## 6. TRADE AND OTHER RECEIVABLES

Trade receivables are mainly related to receivables from Petrobras for charter and service-rendering relating to the drilling rigs used in the exploration of oil and gas in Brazil. Historically, there have been no defaults on receivables or delays in collections and, consequently, the Group has not recorded an allowance for doubtful accounts for the years presented. The average collection period is of approximately 30 days. Refer to Note 22.c for details of financial risk management related to credit risk.

As of March 31, 2015 and December 31, 2014 overdue accounts are mainly comprised by receivables from HRT O&G Exploração e Produção de Petróleo Ltda. (“HRT”) amounting US\$3,538 and US\$4,273, respectively.

The delay in collection of HRT receivables refers to QG-VIII and QG-IX onshore drilling rigs operations performed between April and June 2014, in the amounts of US\$2,050 and US\$2,223, respectively. HRT contests some of the charter and service-rendering agreements’ terms and decided for the non-payment. On June 30, 2014, the Group decided to proceed for a termination of the agreements in accordance with its terms and conditions, with the interruption of the charter and service-rendering and then enter into a legal dispute in order to, among other objectives, collect the amounts overdue. Despite the delay in these receivables, the Group had recorded in other current liabilities the amount of US\$5,052 related to advances made by HRT.

As of March 31, 2015 and December 31, 2014, the Group has fully recognised an allowance for doubtful accounts of the receivables from HRT.

## 7. INVENTORIES

Inventories refer basically to materials to be used in the onshore and offshore drilling rigs and drillships operations. The amounts recognised in the statement of operations are accounted for as cost of services in the account “Materials”, as disclosed in Note 18.



## 8. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries that are part of the Group are eliminated for consolidation purposes and are not disclosed below.

The consolidated intercompany balances as of March 31, 2015 and December 31, 2014, and transactions for the three-month periods ended March 31, 2015 and 2014 are as follows:

	March 31, 2015		December 31, 2014		Three-month period ended March 31,	
	Assets	Liabilities	Assets	Liabilities	2015	2014
					Income / (expenses)	Income / (expenses)
Alperton <sup>(a)</sup>	284,147	267,624	280,378	265,406	1,553	3,865
Tupi Nordeste S.à.r.l. <sup>(b)</sup>	-	-	-	-	-	27
Guará Norte S.à.r.l. <sup>(b)</sup>	-	-	5,051	-	9	-
QG S.A. <sup>(c)</sup>	-	1,825	-	1,331	(494)	(1,179)
FPSO Capixaba <sup>(d)</sup>	902	-	900	-	2	3
Espírito do Mar <sup>(e)</sup>	4,253	-	4,196	-	57	54
Sete Brasil Participações S.A. <sup>(f)</sup>	1,095	-	570	-	524	611
Beta Lula Central S.à.r.l. <sup>(g)</sup>	33,555	-	33,285	-	270	64
Alfa Lula Alto S.à.r.l. <sup>(g)</sup>	-	-	-	-	-	118
SBM Holding Inc. <sup>(h)</sup>	9,590	1,339	9,590	1,339	-	-
Tupi Nordeste Operações Marítimas Ltda. <sup>(i)</sup>	1,583	-	1,432	-	451	-
Guará Norte Operações Marítimas Ltda. <sup>(i)</sup>	448	-	1,328	-	277	-
Others	248	41	272	49	8	8
Total	<u>335,821</u>	<u>270,829</u>	<u>337,002</u>	<u>268,125</u>	<u>2,657</u>	<u>3,571</u>
Current	12,817	3,205	13,042	2,719		
Non-current	323,004	267,624	323,960	265,406		

- (a) In 2010, Constellation and Alperton signed shareholders and loan agreements in order to construct, charter and operate two drillships for Petrobras, the Amaralina Star and the Laguna Star drillships, through Constellation's 55% interest in each of Amaralina and Laguna, the remaining 45% of these entities shares being held by Alperton.

Under these agreements, Constellation has committed to finance Alperton's 45% expenditures share on these projects.

The receivables from Alperton refer to the loans receivable bearing interest at 12% p.a., annually compounded, up to the sixth anniversary of the sub-charter agreement with Petrobras. Thereafter, the loans receivable will bear interest at 13% p.a., annually compounded. Repayment of interest and principal is scheduled to occur quarterly as from one year after the "Date of Acceptance" of the drillships by Petrobras, with the principal being repayable in quarterly installments over the six-year term of the Petrobras charter agreement, starting from the "Date of Acceptance", provided that Amaralina and Laguna comply with the financing agreement conditions to pay dividends. The amounts payables refer to intercompany loans provided by Alperton to Amaralina and Laguna with the same terms and conditions of Constellation's receivable amounts from Alperton.

The amounts of the loans receivable from Alperton are secured by:

- ✓ A pledge of Alperton's 45% shares in Amaralina and Laguna;
- ✓ An assignment of dividends payable to Alperton by Amaralina and Laguna; and
- ✓ An assignment of amounts payable to Alperton by Amaralina and Laguna.

Any cash available in Amaralina and Laguna for dividends payment will be used to repay the intercompany loans to Alperton. Amaralina and Laguna may not pay any dividends or other payables to Alperton, until the intercompany loans are fully paid. The intercompany loans may be extended in the event that the term of the charter agreement with Petrobras is extended. In this case, the new maturity date will be the end date of the extended agreement.

The Group charges a fee to Alperton for being the guarantor of Amaralina Star and Laguna Star drillships project financings and a fee for being the guarantor for importations under the REPETRO. For the three-month periods ended March 31, 2015 and 2014, the fees charged to Alperton totaled US\$1,553 and US\$3,865, respectively.

Non-compliance with the agreements between Alperton and Constellation could result in penalties to either entity. As of March 31, 2015, the Group was in compliance with the requirements of the respective agreements.

- (b) The Group signed shareholders' agreements with its partners to regulate their relationship in the entities that will construct, charter and operate the FPSOs Cidade de Paraty and Cidade de Ilhabela for Petrobras. As of December 31, 2014 loans receivables refer to milestone payments made by Constellation in proportion to its participation in the FPSO Cidade de Ilhabela, through Guar Norte S.r.l.. The loans bear interest rate at the London Interbank Offered Rate ("LIBOR") plus 3% p.a., with no maturity date.

On January 19, 2015, the Group received the amount of US\$5,060 from Guar Norte S..r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Ilhabela.

- (c) The payable amount refers to the fee charged by Queiroz Galvo S.A. for being the guarantor for importations under the REPETRO.
- (d) Loans bearing interest at LIBOR plus 0.5% p.a., with maturity at the end of the charter agreement period between SBM Esprito do Mar B.V. and Petrobras (2022).
- (e) The loan receivable from Esprito do Mar bears an effective interest rate of 5.56% p.a., with maturity at the end of the charter agreement period between SBM Esprito do Mar Inc. and Petrobras (2022).
- (f) On August 3, 2012, Angra Participaes B.V. (“Angra”) signed three shareholders’ agreements in which the Group acquired a 15% equity interest in three special purpose entities (“SPEs”), each one owning an ultra-deepwater semi-submersible rig (Urca, Bracuhy and Mangaratiba) in partnership with Sete Brasil Participaes S.A. (“Sete Brasil”). In the same day, the partnership signed charter agreements of these drilling rigs with Petrobras. The receivable amounts as of March 31, 2015 and December 31, 2014 and the income for the three-month periods ended March 31, 2015 and 2014 refer to the fee charged by the Group related to the drilling rigs’ project management.
- (g) In January and February 2014, the Group signed shareholders’ loan agreements with Alfa Lula and Beta Lula, which regulate the shareholders’ loans to such entities that will construct, charter and operate the FPSOs Cidade de Maric and Cidade de Saquarema for Petrobras, respectively (Notes 9 and 22). As of March 31, 2015 and December 31, 2014 loans receivables amounts refer to milestones payments made by Constellation in proportion to its participation in the FPSO Cidade de Saquarema. The loans bear interest at LIBOR plus 3% p.a. with no maturity date.
- (h) The receivable amount of US\$9,590 as of March 31, 2015 refers to the payment due by SBM to the Group, in connection with the terms which regulates the relationship of these entities as shareholders of Guar Norte S..r.l. and Guar Norte Holding Ltd.. The payable amount of US\$1,339 as of March 31, 2015, refer to costs charged by SBM to the Group related to a bid not won by the partnership with SBM.
- (i) The receivable amounts as of March 31, 2015 and December 31, 2014 and the income for the three-month periods ended March 31, 2015 and 2014 from Tupi Nordeste Operaes Martimas Ltda. and SBM Offshore do Brasil Ltda. are related to labor costs reimbursement with respect to the operation of the FPSO Cidade de Paraty and FPSO Cidade de Ilhabela, respectively.

Key management personnel remuneration is presented below:

	Three-month period ended March 31,	
	2015	2014
Key management personnel compensation <sup>(i)</sup>	2,406	2,737

(i) Key management is defined as the statutory officers and directors of the Group.

All key management personnel compensation refers to short-term benefits.

The cash compensation for each member of senior management is mainly comprised by base salary and bonus. The compensation that is paid to senior management is evaluated on an annual basis considering the following primary factors: individual performance during prior year, market rates and movements and the individual's anticipated contribution to the Group's growth. Members of senior management are also eligible to participate in the Group's retirement savings plans (Note 24).

## 9. INVESTMENTS

	March 31, 2015							Shareholders' equity (deficiency)
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	
<u>Associates:</u>								
FPSO Capixaba Venture S.A.	100	20.00%	82	3,211	-	58,929	16,569	(72,287)
SBM Espírito do Mar Inc.	100	20.00%	88	40	276,965	64,213	32,437	180,355
Urca Drilling B.V. <sup>(3)</sup>	90	15.00%	€90k	173	662,069	359,703	220,366	82,173
Bracuhy Drilling B.V. <sup>(3)</sup>	90	15.00%	€90k	1,667	395,069	139,716	236,788	20,232
Mangaratiba Drilling B.V. <sup>(3)</sup>	90	15.00%	€90k	103	101,868	2,213	92,866	6,892
<u>Joint Ventures:</u>								
Tupi Nordeste S.à.r.l.	20	20.00%	20	158,820	1,149,853	104,479	823,992	380,202
Tupi Nordeste Holding Ltd.	12	20.00%	12	7,295	4,041	26,750	-	(15,414)
Guará Norte S.à.r.l. <sup>(4)</sup>	50,200	12.75%	50,200	126,982	1,632,049	136,016	1,093,693	529,322
Guará Norte Holding Ltd. <sup>(4)</sup>	12	12.75%	12	12,893	(1,290)	11,471	-	133
Alfa Lula Alto S.à.r.l. <sup>(4)</sup>	65,200	5.00%	65,200	231	1,211,219	5,146	1,196,114	10,190
Alfa Lula Alto Holding Ltd. <sup>(4)</sup>	5	5.00%	12	38	244	-	13	269
Beta Lula Central S.à.r.l. <sup>(4)</sup>	65,200	5.00%	65,200	26	1,134,857	8,100	759,125	367,658
Beta Lula Central Holding Ltd. <sup>(4)</sup>	5	5.00%	12	38	244	-	8	274
<u>December 31, 2014</u>								
	Number of shares (thousands)	Ownership interest (%)	Authorized share capital	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Shareholders' equity (deficiency)
<u>Associates:</u>								
FPSO Capixaba Venture S.A.	100	20.00%	82	3,807	-	51,956	19,596	(67,745)
SBM Espírito do Mar Inc.	100	20.00%	88	1,280	261,980	76,773	15,523	170,964
Urca Drilling B.V. <sup>(3)</sup>	90	15.00%	€90k	2,314	651,448	356,776	214,823	82,163 <sup>(*)</sup>
Bracuhy Drilling B.V. <sup>(3)</sup>	90	15.00%	€90k	1,812	392,306	140,894	232,922	20,302 <sup>(*)</sup>
Mangaratiba Drilling B.V. <sup>(3)</sup>	90	15.00%	€90k	112	98,992	34,212	57,970	6,922
<u>Joint Ventures:</u>								
Tupi Nordeste S.à.r.l.	20	20.00%	20	160,447	1,154,258	155,060	789,314	370,331
Tupi Nordeste Holding Ltd.	12	20.00%	12	6,083	5,281	22,766	-	(11,402)
Guará Norte S.à.r.l. <sup>(4)</sup>	50,200	12.75%	50,200	288,314	1,641,604	199,328	1,103,288	627,302
Guará Norte Holding Ltd. <sup>(4)</sup>	12	12.75%	12	3,231	606	3,043	-	794
Alfa Lula Alto S.à.r.l. <sup>(4)</sup>	65,200	5.00%	65,200	261	1,202,485	152,603	1,011,568	38,575
Alfa Lula Alto Holding Ltd. <sup>(4)</sup>	5	5.00%	12	273	244	-	13	278
Beta Lula Central S.à.r.l. <sup>(4)</sup>	65,200	5.00%	65,200	157	1,033,447	691	665,245	367,668
Beta Lula Central Holding Ltd. <sup>(4)</sup>	5	5.00%	12	266	244	-	13	278

(\*) On the shareholders's equity amounts related to Urca Drilling B.V. and Bracuhy Drilling B.V. are included the amounts of US\$1,582 and US\$12,535, respectively, related to advances for future capital increase made by Sete Brasil.

The amounts presented in the previous schedules correspond to the investee's accounting balances before applying the Group's ownership interest.

	Investees' comprehensive income (loss)					
	Three-month period ended March 31,					
	2015			2014		
	Net	Other	Total	Net	Other	Total
	income (loss)	comprehensive	comprehensive	income (loss)	comprehensive	comprehensive
		income (loss)	income (loss)		income (loss)	income (loss)
<u>Associates:</u>						
FPSO Capixaba Venture S.A.	(6,000)	1,459	(4,541)	(6,678)	-	(6,678)
SBM Espírito do Mar Inc.	9,390	-	9,390	7,390	-	7,390
Urca Drilling B.V. <sup>(3)</sup>	(55)	(145)	(200)	(467)	(99)	(566)
Bracuhy Drilling B.V. <sup>(3)</sup>	(39)	(30)	(69)	(2)	(15)	(17)
Mangaratiba Drilling B.V. <sup>(3)</sup>	(8)	(18)	(26)	(9)	(6)	(15)
<u>Joint Ventures:</u>						
Tupi Nordeste S.à.r.l.	12,995	(3,128)	9,867	9,509	(3,312)	6,197
Tupi Nordeste Holding Ltd.	(6,554)	2,538	(4,016)	(3,677)	-	(3,677)
Guará Norte S.à.r.l. <sup>(4)</sup>	18,454	(11,533)	6,921	-	(15,729)	(15,729)
Guará Norte Holding Ltd. <sup>(4)</sup>	(816)	154	(662)	(10)	-	(10)
Alfa Lula Alto S.à.r.l. <sup>(4)</sup>	(13)	(28,372)	(28,385)	-	-	-
Alfa Lula Alto Holding Ltd. <sup>(4)</sup>	(9)	-	(9)	-	-	-
Beta Lula Central S.à.r.l. <sup>(4)</sup>	(10)	-	(10)	-	-	-
Beta Lula Central Holding Ltd. <sup>(4)</sup>	-	-	-	-	-	-

The amounts presented in the schedule above correspond to the investee's results and comprehensive income (loss) before applying the Group's ownership interest.

### Changes in investments

	Asset	Capital	Capital	Share of	Share of	Asset
	(liability)					decrease <sup>(6)</sup>
	balance as of	contributions	decrease <sup>(6)</sup>	results	income (loss)	balance as of
	December	<sup>(2)</sup>				March 31,
	31, 2014					2015
<u>Associates</u>						
FPSO Capixaba Venture S.A.	(13,549)	-	-	(1,200)	292	(14,457)
SBM Espírito do Mar Inc.	34,193	-	-	1,878	-	36,071
Urca Drilling B.V. <sup>(3)</sup>	11,965	144	-	(9)	(22)	12,078
Bracuhy Drilling B.V. <sup>(3)</sup>	1,165	-	-	(6)	(5)	1,154
Mangaratiba Drilling B.V. <sup>(3)</sup>	1,038	-	-	(1)	(3)	1,034
<u>Joint ventures</u>						
Tupi Nordeste S.à.r.l.	74,067	-	-	2,599	(626)	76,040
Tupi Nordeste Holding Ltd.	(2,280)	-	-	(1,311)	508	(3,083)
Guará Norte S.à.r.l. <sup>(4)</sup>	79,981	-	(13,375)	2,353	(1,470)	67,489
Guará Norte Holding Ltd. <sup>(4)</sup>	101	-	-	(104)	20	17
Alfa Lula Alto S.à.r.l. <sup>(4)</sup>	1,929	-	-	(1)	(1,419)	509
Alfa Lula Alto Holding Ltd. <sup>(4)</sup>	14	-	-	-	-	14
Beta Lula Central S.à.r.l. <sup>(4)</sup>	18,383	-	-	-	-	18,383
Beta Lula Central Holding Ltd. <sup>(4)</sup>	14	-	-	-	-	14
Total	<u>207,021</u>	<u>144</u>	<u>(13,375)</u>	<u>4,198</u>	<u>(2,725)</u>	<u>195,263</u>
Total assets (investments)	222,850					212,803
Total liabilities (accumulated deficit in investments) <sup>(1)</sup>	(15,829)					(17,540)

	Asset (liability) balance as of December 31, 2013	Capital decrease <sup>(5)</sup>	Share of results	Share of comprehensive income	Asset (liability) balance as of March 31, 2014
<u>Associates</u>					
FPSO Capixaba Venture S.A.	(5,035)	-	(1,336)	-	(6,371)
SBM Espírito do Mar Inc.	27,643	-	1,478	-	29,121
Urca Drilling B.V. <sup>(3)</sup>	7,978	-	(70)	(15)	7,893
Bracuhy Drilling B.V. <sup>(3)</sup>	1,008	-	-	(2)	1,006
Mangaratiba Drilling B.V. <sup>(3)</sup>	1,052	-	(1)	(1)	1,050
<u>Joint ventures</u>					
Tupi Nordeste S.à.r.l.	60,194	-	1,902	(662)	61,434
Tupi Nordeste Holding Ltd.	(547)	-	(736)	-	(1,283)
Guará Norte S.à.r.l. <sup>(4)</sup>	58,958	-	-	(2,005)	56,953
Guará Norte Holding Ltd. <sup>(4)</sup>	4	-	-	-	4
Alfa Lula Alto S.à.r.l. <sup>(4)</sup>	22,168	(11,494)	-	-	10,674
Beta Lula Central S.à.r.l. <sup>(4)</sup>	<u>21,844</u>	<u>(11,323)</u>	<u>-</u>	<u>-</u>	<u>10,521</u>
Total	<u>195,267</u>	<u>(22,817)</u>	<u>1,237</u>	<u>(2,685)</u>	<u>171,002</u>
Total assets (investments)	200,850				178,656
Total liabilities (accumulated deficit in investments) <sup>(1)</sup>	(5,582)				(7,654)

- (1) The liability to fund the deficit in FPSO Capixaba Venture S.A. and Tupi Nordeste Holding Ltd. is recognised in “Other current liabilities”.
- (2) Capital contributions have been made considering the Group’s participation in each partnership. Therefore, there have been no interest changes in these investees.
- (3) Although the Group has a participation of 15% in Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V., each, the Group has significant influence over the investees decisions due to the following reasons: (i) the Group’s indirect subsidiary, QGOG, will be sole operator of the drilling rigs; (ii) each Urca Drilling B.V., Bracuhy Drilling B.V. and Mangaratiba Drilling B.V. will have 2 (two) directors, and the Group will appoint 1 (one) of them, although these directors will only execute the planning approved by shareholders resolutions; and (iii) some matters that shall be subject to unanimous shareholders approval just with the purpose of investment protection of non-controlling interest.
- (4) The Group jointly controls the entities within the FPSOs Cidade de Ilhabela, Cidade de Maricá and Cidade de Saquarema structures with its partners since all the major financial and operational decisions require the unanimous approval of the Directors and Managers representatives of all the shareholders of these entities.

The Group has the right to appoint one of five Managers in Luxembourg entities and one of four Directors in Bermuda entities. According to the shareholders agreement, the meetings of the Board of Managers and Board of Directors of Luxembourg and Bermuda entities, respectively, must have a quorum comprised by at least one Manager or one Director appointed by each shareholder, which means that the Manager or the Director appointed by Arazi and or Lancaster Projects Corp. must be present. The Group participates actively in the organization and execution of the operations by seconding personnel to the operating management team in agreed positions.

- (5) Refer to amendments executed in January and February 2014, to the agreements that regulate the Group’s relationship with its partners in the FPSOs Cidade de Maricá and Cidade de Saquarema, respectively, in order to change the capital structure of the related projects (Note 8). Previous capital structures of the projects were comprised by 100% of equity contributions.
- (6) On January 19, 2015, the Group received the amount of US\$13,375 from Guará Norte S.à.r.l., in connection with the payment made by Petrobras related to the acceptance of the FPSO Cidade de Ilhabela.

The main activities of the Group's associates are as follows:

#### FPSO Capixaba

- FPSO Capixaba Venture S.A. ("Capixaba")'s core business is to support operations for agreements in the offshore oil and gas industry. Since March 16, 2007, this entity is a shareholder of a Brazilian entity that operates the FPSO Capixaba, currently located off the Brazilian coast and chartered to Petrobras until 2022.
- SBM Espírito do Mar Inc. ("Espírito do Mar") owns the FPSO Capixaba and its main activity is to support charter agreements in the offshore oil and gas industry.

#### Urca, Bracuhy and Mangaratiba offshore drilling rigs

- Urca Drilling B.V. owns the Urca semi-submersible drilling rig, which operation is expected to start in 2016. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Urca will be chartered to Petrobras until 2031. QGOG will be the sole operator of this offshore drilling rig. As of March 31, 2015 the Group's main capital commitments for the conclusion of Urca offshore drilling rig construction amounts to approximately US\$17 million, corresponding to the ownership interest percentage in this associate.
- Bracuhy Drilling B.V. owns the Bracuhy semi-submersible drilling rig, which operation is expected to start in 2018. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Bracuhy will be chartered to Petrobras until 2033. QGOG will be the sole operator of this offshore drilling rig. As of March 31, 2015 the Group's main capital commitments for the conclusion of Bracuhy offshore drilling rig construction amounts to approximately US\$28 million, corresponding to the ownership interest percentage in this associate.
- Mangaratiba Drilling B.V. owns the Mangaratiba semi-submersible drilling rig, which operation is expected to start in 2019. This offshore drilling rig will be equipped to operate in pre-salt water depths. Upon its construction completion and acceptance by Petrobras, Mangaratiba will be chartered to Petrobras until 2034. QGOG will be the sole operator of this offshore drilling rig. As of March 31, 2015 the Group's main capital commitments for the conclusion of Mangaratiba offshore drilling rig construction amounts to approximately US\$28 million, corresponding to the ownership interest percentage in this associate.

The main activities of the Group's joint ventures are as follows:

#### FPSO Cidade de Paraty

- Tupi Nordeste S.à.r.l.'s main activity is to act as a sub-charter party in the agreements in the offshore oil and gas industry. The entity charters the FPSO Cidade de Paraty to Petrobras until 2033, which is currently located off the Brazilian coast. Operations started in June 2013.
- Tupi Nordeste Holding Ltd.'s main activity is to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Tupi Nordeste Operações Marítimas Ltda., that operates the FPSO Cidade de Paraty to Petrobras until 2033.

### FPSO Cidade de Ilhabela

- Guar Norte S..r.l.'s main activity is to act as a sub-charter party in the agreements in the offshore oil and gas industry. The entity owns the FPSO Cidade de Ilhabela, which operates off the Brazilian coast being chartered to Petrobras for a twenty-year period. Operations started on November 20, 2014, which became effective on November 24, 2014 after a continuous oil flow of 72 hours at the Sapinho field, in the Santos basin.
- Guar Norte Holding Ltd.'s main activity is to support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity, Guar Norte Operaes Martimas Ltda., that operates the FPSO Cidade de Ilhabela to Petrobras for a twenty-year period.

### FPSO Cidade de Maric

- Alfa Lula Alto S..r.l. owns the FPSO Cidade de Maric, which is expected to be delivered and start its operations in the fourth quarter of 2015. On July 12, 2013, the Group entered into a twenty-year agreement to charter the FPSO Cidade de Maric with the Consortium BM-S-11. As of December 31, 2014, the Group has future capital commitments amounting to US\$29 million for the conclusion of the construction of the FPSO Cidade de Maric.

On July 28, 2014, the Group and its partners SBM Inc., Mitsubishi and NYK Line, through the joint venture Alfa Lula Alto S..r.l., signed a loan agreement amounting to US\$1.45 billion with a pool of international commercial banks, in order to finance the construction of the FPSO Cidade de Maric. The loan agreement was structured as a Limited Recourse Project Finance and will be repaid on a quarterly basis as from April 2016 over a period ending December 2029. As of March 31, 2015, Alfa Lula Alto S..r.l. disbursed US\$1.13 billion and with part of the proceeds repaid the full amount of the shareholders loan and part of the capital contributions made by the Group (Notes 8 and 9).

The financing obtained by Alfa Lula Alto S..r.l. in order to finance the construction of the FPSO Cidade de Maric was structured as a Project Finance, therefore benefiting from a customary security package and, exclusively during pre-completion period, corporate guarantees which are provided by the sponsors of the project loan, up to the limit of its participation in Alfa Lula Alto S..r.l..

During the pre-completion period, the financing obtained by Alfa Lula Alto S..r.l. is subject to financial covenants. Non compliance with such financial covenants could constitute an event of default under the project loan, which would result in the acceleration of debt repayment and the borrower entity not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock and make certain payments to related parties.

The financial covenants consist of: (i) a minimum requirement of Consolidated Tangible Net Worth; (ii) a minimum requirement of Consolidated Cash and Cash Equivalents and Marketable Securities; (iii) Interest Cover Ratio, that requires maintenance of a minimum Consolidated Adjusted EBITDA to Consolidated Net Interest Payable ratio; (iv) Leverage Ratio, which requires a maximum ratio of Consolidated Net Total Borrowings to Consolidated Adjusted EBITDA. Consolidated refers to the Group.

The financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December 31, 2014, the Group was in compliance with such restrictive clauses.



- Alfa Lula Alto Holding Ltd.'s main activity will be the support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity that will operate the FPSO Cidade de Maricá to Petrobras for a twenty-year period.

#### FPSO Cidade de Saquarema

- Beta Lula Central S.à.r.l. owns the FPSO Cidade de Saquarema, which is expected to be delivered and start its operations in the first quarter of 2016. On July 12, 2013, the Group entered into a twenty-year agreement to charter the FPSO Cidade de Saquarema with the Consortium BM-S-11. As of December 31, 2014, the Group has no capital commitments for the conclusion of the construction of the FPSO Cidade de Saquarema, although it is expected that the Group will make some cash advances for the conclusion of the FPSO Cidade de Saquarema construction until the investee receives the proceeds of the project financing and Petrobras' payment related to the services rendered between the preliminary and final acceptance (first oil date).
- Beta Lula Central Holding Ltd.'s main activity will be the support operations for agreements in the offshore oil and gas industry. This entity is a shareholder of a Brazilian entity that will operate the FPSO Cidade de Maricá to Petrobras for a twenty-year period.

Additionally, the Group has the right to acquire from SBM Lux an additional participation of 5% in Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. and Beta Lula Central Holding Ltd. within fifteen days of the FPSOs final acceptance, based on the capital invested by SBM Lux plus interest of 8% p.a.

#### Other matters regarding the Group's investments

##### *Partnership with SBM Offshore N.V. – Contingent Liability*

The Company, through its subsidiaries, is a minority shareholder in the following associates and joint ventures entities with SBM Offshore N.V. ("SBM Offshore") and its subsidiaries: FPSO Capixaba Venture S.A., SBM Espírito do Mar Inc., Tupi Nordeste S.à.r.l., Tupi Nordeste Holding Ltd., Guarã Norte S.à.r.l, Guarã Norte Holding Ltd., Alfa Lula Alto S.à.r.l., Alfa Lula Alto Holding Ltd., Beta Lula Central S.à.r.l. and Beta Lula Central Holding Ltd.. The majority shareholder is SBM Offshore.

On November 12, 2014, SBM Offshore announced that it had reached an out-of-court settlement agreement with the Openbaar Ministerie over the inquiry into alleged improper payments to sales agents in Equatorial Guinea, Angola and Brazil in the period from 2007 through 2011. The out-of-court settlement agreement consists of a payment by SBM Offshore to the *Openbaar Ministerie* of US\$240 million. Furthermore, the U.S. Department of Justice has informed SBM Offshore that declined to prosecute SBM Offshore and has closed its inquiry into the matter.

On February 4, 2015, SBM Offshore announced that is a party in a number of investigations of alleged improper payments to Brazilian government officials, notably by *Ministério Público Federal* - MPF (Federal Public Prosecutor's Office), *Tribunal de Contas da União* - TCU (Federal Accounts Tribunal) and CGU, who recently confirmed in writing to SBM Offshore that they have opened an investigation. SBM Offshore's management confirmed that it is not aware of any authorities outside Brazil investigating SBM Offshore and that it is cooperating with the current investigations held in Brazil.

On March 17, 2015, SBM Offshore announced that signed a Memorandum of Understanding with CGU and *Advocacia-Geral da União - AGU* (Attorney General's Office). Such memorandum sets a framework between SBM Offshore, CGU and AGU for discussions on a potential mutually acceptable settlement and for the disclosure by SBM Offshore of information relevant to the CGU's investigations.

At this stage it is not possible to predict the outcome of the Brazilian authorities' investigations. The confirmation of failure to comply with anti-corruption laws could give rise to criminal prosecution by local authorities, civil claims or administrative proceedings against SBM Offshore and its subsidiaries. As of the date of these unaudited condensed consolidated interim financial statements, it is not possible to reasonably estimate the impact, if any, of this matter on the Company's unaudited condensed consolidated interim financial statements.

#### Partnership with Sete Brasil

The Company, through one of its subsidiaries, is a minority shareholder in the following associate entities with Sete Brasil's subsidiaries: Urca Drilling B.V. ("Urca"), Bracuhy Drilling B.V. ("Bracuhy") and Mangaratiba Drilling B.V. ("Mangaratiba"). The majority shareholder is Sete International One GmbH, a subsidiary of Sete Brasil.

- Press news regarding ongoing investigations involving Petrobras

On November 26, 2014, Sete Brasil announced that regarding the recent news in the press involving Petrobras, its Board of Executive Officers immediately started an audit and investigation process of documents and agreements related to the rigs project, signed since the establishment of Sete Brasil in December 2010.

- Uncertainty with respect to going concern assumption

Sete Brasil is under negotiations with financial institutions to obtain long-term resources to meet Urca, Bracuhy and Mangaratiba's existing obligations as of March 31, 2015. These resources are required to complete the construction of Urca, Bracuhy and Mangaratiba drillships. The completion of such negotiations depends on the fulfillment of certain precedent conditions, which indicates the existence of a material uncertainty that may cast significant doubt about Urca, Bracuhy and Mangaratiba's ability to continue as a going concern. Urca, Bracuhy and Mangaratiba's Management considers it appropriate to prepare the financial statements on a going concern basis as pre-operating costs will be recovered through future revenues to be generated by the drillships' operation and the concluded charter agreement with Petrobras.

- Sete Brasil's Annual IFRS Financial Statements

Sete Brasil disclosed in its December 31, 2014 audited financial statements the following information: (i) the audit and investigation process, carried out under the supervision of its Audit Committee, did not indicate that the agreements related to the rigs projects were not entered into under normal market conditions or that had occurred violations of laws and regulations, and (ii) there was no indication of impairment of its long term assets under construction. The auditor's report issued as of March 27, 2015 was unqualified but included emphasis paragraphs related to the Lava Jato investigation and going concern matter.

10. PROPERTY, PLANT AND EQUIPMENT

	Drilling rigs and drillships in operation											
	Drillship under construction	Drillships		Offshore drilling rigs						Onshore drilling rigs, equipment and bases	Corporate	Total
		Amaralina Star	Laguna Star	Alaskan Star	Atlantic Star	Alpha Star	Gold Star	Lone Star	Olinda Star			
<b>Cost</b>												
Balance as of December 31, 2013	237,056	639,435	648,258	378,480	335,192	721,214	537,949	640,477	532,319	164,102	28,831	4,863,313
Additions	135,266	5,129	1,848	341	303	485	9	20	240	2,985	722	147,348
Currency translation adjustments	-	-	-	-	-	-	-	-	-	3,001	529	3,530
Balance as of March 31, 2014	<u>372,322</u>	<u>644,564</u>	<u>650,106</u>	<u>378,821</u>	<u>335,495</u>	<u>721,699</u>	<u>537,958</u>	<u>640,497</u>	<u>532,559</u>	<u>170,088</u>	<u>30,082</u>	<u>5,014,191</u>
Balance as of December 31, 2014	631,712	645,409	650,567	379,191	344,814	721,906	542,916	648,264	542,886	176,665	29,046	5,313,376
Additions	33,639	156	386	-	43	77	4,225	73	1,823	7,486	241	48,149
Disposals	-	-	-	-	-	-	-	-	-	-	(204)	(204)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(15,315)	(2,463)	(17,778)
Balance as of March 31, 2015	<u>665,351</u>	<u>645,565</u>	<u>650,953</u>	<u>379,191</u>	<u>344,857</u>	<u>721,983</u>	<u>547,141</u>	<u>648,337</u>	<u>544,709</u>	<u>168,836</u>	<u>26,620</u>	<u>5,343,543</u>
<b>Accumulated depreciation</b>												
Balance as of December 31, 2013	-	(32,553)	(28,412)	(84,074)	(82,332)	(75,429)	(88,761)	(82,834)	(104,367)	(66,008)	(16,909)	(661,679)
Depreciation	-	(6,499)	(6,552)	(4,094)	(3,678)	(6,436)	(5,007)	(6,227)	(5,636)	(3,019)	(440)	(47,588)
Currency translation adjustments	-	-	-	-	-	-	-	-	-	(1,737)	(227)	(1,964)
Balance as of March 31, 2014	<u>-</u>	<u>(39,052)</u>	<u>(34,964)</u>	<u>(88,168)</u>	<u>(86,010)</u>	<u>(81,865)</u>	<u>(93,768)</u>	<u>(89,061)</u>	<u>(110,003)</u>	<u>(70,764)</u>	<u>(17,576)</u>	<u>(711,231)</u>
Balance as of December 31, 2014	-	(58,692)	(54,699)	(100,477)	(106,244)	(101,239)	(108,957)	(108,395)	(126,936)	(81,069)	(17,800)	(864,508)
Depreciation	-	(6,549)	(6,583)	(4,108)	(3,689)	(6,464)	(5,083)	(6,616)	(5,648)	(2,818)	(413)	(47,971)
Disposals	-	-	-	-	-	-	-	-	-	-	167	167
Currency translation adjustments	-	-	-	-	-	-	-	-	-	8,378	1,162	9,540
Balance as of March 31, 2015	<u>-</u>	<u>(65,241)</u>	<u>(61,282)</u>	<u>(104,585)</u>	<u>(109,933)</u>	<u>(107,703)</u>	<u>(114,040)</u>	<u>(115,011)</u>	<u>(132,584)</u>	<u>(75,509)</u>	<u>(16,884)</u>	<u>(902,772)</u>
Property, plant and equipment, net												
December 31, 2014	631,712	586,717	595,868	278,714	238,570	620,667	433,959	539,869	415,950	95,596	11,246	4,448,868
March 31, 2015	665,351	580,324	589,671	274,606	234,924	614,280	433,101	533,326	412,125	93,327	9,736	4,440,771
Average useful life (years)		25	25	23	23	28	27	26	24	17	15	

The detailed cost of the drillship under construction is as follows:

<u>Cost</u>	<u>Drillship under construction (Brava Star)</u>
Balance as of December 31, 2013	237,056
Additions	<u>135,266</u>
Balance as of March 31, 2014	<u>372,322</u>
Balance as of December 31, 2014	631,712
Additions	<u>33,639</u>
Balance as of March 31, 2015	<u>665,351</u>

As of December 31, 2014, the balance of the drillship under construction refers to the costs incurred in the Brava Star drillship construction, which total construction project cost is of approximately US\$660 million (Note 1). As of March 31, 2015 the unbilled costs by the shipyard (Samsung) and other suppliers amount to US\$388,330. The Group recognised these costs in PP&E against a provision recognized in accrued liabilities (Note 12).

Borrowing costs are capitalized using the effective interest rates of each financing agreement. For the three-month periods ended March 31, 2015 and 2014, borrowing costs capitalized in PP&E amounted to US\$3,799 and US\$3,280, respectively (Notes 11 and 25).

The Group's assets that are pledged as security for financing agreements are also described in Note 11.

## 11. LOANS AND FINANCINGS

Financial institution	Funding type	Objective	Beginning period	Maturity	Contractual interest rate	Effective interest rate	Original currency	March 31, 2015	December 31, 2014
Bradesco	Loan	Working capital	Sep 2014	May 2017	3.38%p.a.	3.38%p.a.	U.S. dollar	150,780	55,568
Bradesco	Loan	Working capital	Jan 2015	Jan 2017	Libor+4.80%p.a. <sup>(1)</sup>	5.16%p.a.	U.S. dollar	75,645	-
Santander, HSBC, Citibank (joint bookrunners)	Senior Notes ("Project Bond")	Refinance Alaskan Star and Atlantic Star rigs, and other corporate purposes	Jul 2011	Jul 2018	5.25%p.a.	5.55%p.a.	U.S. dollar	374,749	369,351
HSBC, BAML and Citibank (joint bookrunners)	Senior Unsecured Notes ("Corporate Bond")	Prepay working capital loans	Nov 2012	Nov 2019	6.25%p.a.	6.86%p.a.	U.S. dollar	<u>704,538</u>	<u>692,919</u>
						Subtotal - fixed interest rate		<u>1,305,712</u>	<u>1,117,838</u>
ING (leader arranger)	Financing	Gold Star rig construction <sup>(2)</sup>	Jul 2007	Dec 2017	Libor+1.15%p.a. to Libor+1.35%p.a. <sup>(3)</sup>	1.40%p.a.	U.S. dollar	173,280	190,324
ING (leader arranger)	Financing	Lone Star rig construction <sup>(4)</sup>	Jul 2007	Jan 2015	Libor+1.15%p.a.	1.38%p.a.	U.S. dollar	-	95,278
Citibank and Santander (joint leader arrangers)	Financing	Alpha Star rig construction	Apr 2011	Jul 2017	Libor+2.50%p.a.	3.66%p.a.	U.S. dollar	312,856	329,437
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Amaralina Star drillship construction	May 2012	Oct 2018 <sup>(5)</sup>	Libor+2.75%	4.07%p.a.	U.S. dollar	335,468	347,522
BNP, Citi and ING (leader arrangers) and The Norwegian Ministry of Trade and Industry ("MTI")	Financing	Laguna Star drillship construction	May 2012	Dec 2018 <sup>(5)</sup>	Libor+2.75%	4.24%p.a.	U.S. dollar	<u>342,488</u>	<u>354,328</u>
						Subtotal - variable interest rate		<u>1,164,092</u>	<u>1,316,889</u>
						Total		<u>2,469,804</u>	<u>2,434,727</u>
						Current		343,043	417,979
						Non-current		2,126,761	2,016,748

(1) The interest rate is fixed for each interest payment period, which occurs semi-annually.

(2) The repayment proceeds of this financing derive from the charter receivables of the Lone Star offshore drilling rig.

(3) The interest rate is Libor plus 1.15% p.a. until the fifth anniversary as from the first principal repayment and thereafter is Libor plus 1.35% p.a.

(4) The repayment proceeds of this financing derive from the charter receivables of the Gold Star offshore drilling rig.

(5) The maturity dates for MTI tranches for Amaralina Star and Laguna Star project financings are December 2020 and January 2021, respectively. The maturity dates would be anticipated for October 2018 and December 2018 for Amaralina Star and Laguna Star MTI tranches, respectively, if the commercial banks do not extend the maturity date of their financings to December 2020 and January 2021, respectively.

Changes in loans and financings

	<u>Three-month period ended March 31,</u>	
	<u>2015</u>	<u>2014</u>
Balance as of January 1	2,434,727	3,003,258
Additions	170,000	-
Repayment of principal	(153,656)	(85,808)
Interest capitalized	3,799	3,280
Payment of interest	(9,271)	(10,468)
Subtotal	<u>2,445,599</u>	<u>2,910,262</u>
Interest charged through profit and loss	21,881	24,904
Transaction cost charged through profit and loss	1,817	1,995
Debt discounts charged through profit and loss	507	552
Financial charges on loans and financings	<u>24,205</u>	<u>27,451</u>
Balance as of March 31	<u>2,469,804</u>	<u>2,937,713</u>

Loans and financings long term amortization schedule

<u>For the years ending December 31,</u>	<u>Loans and financing</u>	<u>Transaction costs</u>	<u>Debt discounts</u>	<u>Net amount</u>
2016	286,305	(4,665)	(1,292)	280,348
2017	693,484	(5,010)	(1,596)	686,878
2018	467,434	(4,098)	(1,455)	461,881
2019	700,000	(1,155)	(1,191)	697,654
Total	<u>2,147,223</u>	<u>(14,928)</u>	<u>(5,534)</u>	<u>2,126,761</u>

Covenants

The financing agreements contain financial covenants and securities provided to lenders as described hereafter. Non compliance with such financial covenants could constitute a Restricted Payment Trigger Event, which would result in the borrower entity not being allowed to pay dividends, purchase, retire or otherwise distribute capital stock or make certain payments to related parties.

The financial covenants consist of: (i) a minimum requirement of Consolidated Tangible Net Worth; (ii) a minimum requirement of Consolidated Cash and Cash Equivalents and Marketable Securities; (iii) Interest Cover Ratio, that requires maintenance of a minimum Consolidated Adjusted EBITDA to Consolidated Net Interest Payable ratio (which calculations are subject to defined adjustments mainly related to borrowings to Project Finance); (iv) Leverage Ratio, which requires a maximum ratio of Consolidated Net Total Borrowings to Consolidated Adjusted EBITDA (which calculations are subject to defined adjustments mainly related to borrowings to Project Finance). Consolidated refers to the Group.

The financial covenants are assessed semi-annually based on the consolidated financial statements as of December 31 and June 30 of each year. As of December 31, 2014 the Group was in compliance with such restrictive clauses.

The indenture governing the Corporate Bond contains certain financial covenants that limit the Group's ability to incur additional indebtedness. The covenants are measured on the four most recent fiscal quarters for which financial statements are available and consist of: (i) Unconsolidated Interest Coverage Ratio and (ii) Consolidated Net Leverage Ratio. These financial covenants are not required to be measured on a regular basis and shall be assessed whenever additional indebtedness is envisaged to be incurred by the Group, as required under the indenture.

#### Guarantees

The financings obtained by the Group in order to finance the construction of the drilling rigs and for other corporate purposes are usually structured as Project Finance/Project Bond, therefore benefiting from a customary security package that includes guarantees such as assignment of the charter receivables, mortgages over the drilling rigs, pledges over the shares of the drilling rigs owners, charges over the relevant bank accounts held at the facility agents, including accounts into which the amounts payable under charter agreement are required to be paid, assignment of the relevant insurances along with corporate guarantees during pre-completion period. In addition, the terms of some of these financing debt instruments restrict the ability of project subsidiaries, to pay dividends, incur additional debt, grant additional liens, sell or dispose assets and enter into certain acquisitions, mergers and consolidations, except as already established in such financing debt instruments.

The aforementioned conditions are applied to the following offshore drilling rigs financings: Gold Star, Lone Star, Alpha Star, Alaskan Star and Atlantic Star; and the Project Financing of Amaralina Star and Laguna Star drillships.

The Corporate Bond issued on November 9, 2012 is guaranteed on a senior unsecured basis by Constellation. In addition, the Company established an interest reserve account in favor of the collateral agent, which is fully funded by cash and/or letters of credit in an amount sufficient to provide for the payment of the next two succeeding interest payments.

#### Brava Star drillship loan facility

On November 21, 2014, the Company, through its subsidiary Brava Star Ltd., signed a loan agreement amounting to US\$475 million with a pool of international commercial banks and export credit agencies in order to finance the construction of the Brava Star drillship. The loan agreement was structured as a Limited Recourse Project Finance to be repaid over a 5-year period bearing interest rate at LIBOR plus 2% p.a. Such loan facility was disbursed on May 26, 2015 as disclosed in Note 27.

## 12. ACCRUED LIABILITIES

The drillship under construction is recorded considering the incurred costs of the related project based on information provided by the shipyard (Samsung) and other suppliers. These costs are recognized in PP&E and the respective amounts of the unbilled costs are recognized as accrued liabilities, as follows:

	March 31, 2015	December 31, 2014
Drillship under construction:		
Brava Star drillship	<u>388,330</u>	<u>390,697</u>
Total	<u>388,330</u>	<u>390,697</u>

## 13. PROVISIONS

In the normal course of its business the Group engages in agreements with third parties that convey contractual obligations. The Group recognises provisions for contractual penalties that are more likely than not to be payable with respect to certain of its agreements, for which the Company's management does not expect the payable amount to materially differ from the estimate.

	Three-month period ended March 31,	
	2015	2014
Balance as of January 1	1,551	7,525
Brava Star penalty provision addition	1,517	-
Currency translation adjustments	<u>(83)</u>	<u>-</u>
Balance as of March 31	<u>2,985</u>	<u>7,525</u>

## 14. PROVISION FOR CONTINGENCIES

## a) Contingent assets

The Group has not recognised contingent assets.

## b) Contingent liabilities assessed as probable losses

During the normal course of its business activities, the Group is exposed to labor, civil and tax claims. Regarding each claim or exposure, Management has made an assessment of the probability that the resolution of the matter would ultimately result in a loss for the Group. Therefore, based on such assessment a provision to cover probable losses arising from labor claims was recorded. As of March 31, 2015 and December 31, 2014, the provisions for labor claims included in "other non-current liabilities" are mainly related to hardship and retirement.



Changes in loss provision for labor claims are as follows:

	Three-month period ended March 31,	
	<u>2015</u>	<u>2014</u>
Balance as of January 1	1,355	924
Additions	51	495
Reversals	(317)	(67)
Currency translation adjustments	<u>(205)</u>	<u>51</u>
Balance as of March 31	<u>884</u>	<u>1,403</u>

c) Contingent liabilities assessed as possible losses

Based on the in-house legal counsel and external legal advisors' opinions, these claims are not accrued in the unaudited condensed consolidated interim financial statements and consist of labor lawsuits (mainly comprised by compensation due to work related accidents and occupational diseases) in the amount of US\$11,407 (US\$11,969 as of December 31, 2014), tax lawsuits in the amount of US\$24,856 (US\$5,356 as of December 31, 2014) and civil lawsuits in the amount of US\$6,856 (US\$9,006 as of December 31, 2014).

The main tax lawsuits assessed as possible loss are as follows:

- 1) On September 15, 2010, QGOG received a Notice of Violation issued by the Rio de Janeiro tax authorities due to nonpayment of Services Tax ("ISS") in the city of Rio de Janeiro. QGOG argues, on appeal, that the operations were carried out in other municipalities and the taxes were collected under their tax jurisdictions (ISS due to the site of the service provider). As of March 31, 2015, the estimated amount involved is US\$3,896 (US\$4,427 as of December 31, 2014).
- 2) On January 22, 2015, QGOG received a Notice of Violation issued by the *Receita Federal do Brasil* - RFB ("Internal Revenue Service") related to Social Integration Program ("PIS") and Social Investment Program ("COFINS") collected in the years 2010 and 2011. The RFB initiated a Tax Administrative Process, whereby requires QGOG to make tax payments, due to the fact that the RFB considered that QGOG made use of improper tax credits aiming to reduce its PIS and COFINS obligations. On February 23, 2015, QGOG argued on appeal in order to contest the RFB's tax assessment. As of March 31, 2015, the estimated amount involved is US\$20,292.

The main civil lawsuits assessed as possible loss refer to litigations with HRT related to the early termination of the agreements related to QG-VIII and QG-IX onshore drilling rigs. In the judicial dispute, the Group seeks payment of the invoices related to April, May and June 2014, payment of loss and damages, and the return of such onshore drilling rigs to its possession, while HRT seeks the repayment of the amounts advanced to the Group. As of March 31, 2015, the estimated amount involved is US\$6,830 (US\$8,249 as of December 31, 2014).

d) Tax, labor and social security matters

The Group enters into transactions and operations that may be interpreted by others subjectively and/or as opposed to the Group's position. Nevertheless, the Group's actions are supported by its external legal advisors' opinion.

e) Other matters

Petrobras withholding taxes

In July 2014, the Group received letters from Petrobras informing that the Brazilian Federal Revenue Service ("RFB") issued Notices of Violation against Petrobras regarding the absence of withholding income taxes from charter agreements remittances in 2008 and 2009, related to Atlantic Star and Alaskan Star offshore drilling rigs. Petrobras indicated that is currently contesting the Notices of Violation issued by the RFB, but if the losses on ongoing appeals are confirmed, it will seek the recoverability of such losses from its contractors, including the Group, and any penalties, interest and fees that would be required to settle the debt with the RFB. Petrobras has informed that the amount involved related to the work performed by the Group amounts to R\$152 million, excluding penalties, interest and fees. The Group has contested Petrobras' allegations in a response letter stating that Petrobras "has no legal or commercial grounds to seek recoverability from the Group" and that "will not accept any withholding or deduction of the amounts to be received under the charter agreements". Should Petrobras fail in its appeals and, consequently, the Group receives any future charges aiming the reimbursement of Petrobras' losses, the Group will contest such charges.

## 15. DERIVATIVES

Under the terms of the Project Finance arrangements (Note 11), the Group is contractually required to manage its risk on variable interest rates by eliminating variable-to-fixed interest rate swaps on its long term variable rate loans. Accordingly, the interest rate swaps utilized by Management convert the variable component of interest rates to fixed rates ranging from 1.505% p.a. to 5.165% p.a. in order to mitigate such risk. The floating component of interest rate of all derivatives agreements is US\$ LIBOR.

These swaps protect the Group from fluctuations in interest rates. As of March 31, 2015, the Group has interest rate swaps related to the loans funding Gold Star and Alpha Star offshore drilling rigs, and Amaralina Star and Laguna Star drillships. The swap agreements cover the expected periods of the loans and terminate between 2015 and 2018.

## Information on derivative agreements

Interest rate swaps US\$ LIBOR/Pre-fixed rate							
Financial institution	Loans and financings objective	Payable leg interest rate (per annum)	Maturity	Notional amount		Fair value	
				Mar. 31, 2015	Dec. 31, 2014	Mar.31, 2015	Dec. 31, 2014
ING financing (leader arranger)	Gold Star construction	5.165%	Jul 2017	141,656	154,633	8,975	10,504
ING financing (leader arranger) <sup>(*)</sup>	Lone Star construction	1.505%	Jan 2015	-	71,250	-	229
Citibank and Santander financing (joint leader arranger) <sup>(*)</sup>	Alpha Star construction	1.930%	Jul 2017	315,426	332,312	6,862	6,736
				Non-designated to hedge accounting		457,082	558,195
BNP, Citibank and ING financing (joint leader arranger) <sup>(**)</sup>	Amaralina Star construction	2.815%	Oct 2018	344,812	357,279	16,219	15,648
BNP, Citibank and ING financing (joint leader arranger) <sup>(**)</sup>	Laguna Star construction	2.900%	Dec 2018	352,254	364,549	17,734	17,076
				Designated to hedge accounting		697,066	721,828
Total amount				<u>1,154,148</u>	<u>1,280,023</u>	<u>49,790</u>	<u>50,193</u>
Current liabilities						28,718	28,445
Non-current liabilities						21,072	21,748

	Three-month period ended March 31,	
	2015	2014
Balance as of January 1,	50,193	78,389
Fair value adjustments through profit and loss	2,289	3,193
Fair value adjustments through other comprehensive income (loss) <sup>(*)</sup>	5,695	262
Cash payments	<u>(8,387)</u>	<u>(11,667)</u>
Balance as of March 31,	<u>49,790</u>	<u>70,177</u>

- (\*) The Group has adopted the hedge accounting as from July 15, 2011, using derivative agreements related to Amaralina Star and Laguna Star drillships construction. Additional information on these instruments is included in Note 22. Accordingly, the effect of the changes in the fair value of these derivative agreements were recorded in "Other Comprehensive Income/(Loss)" until the completion of its construction and the disbursement of the Project Financing (Note 11). At the completion date of construction of each drillship, the fair value adjustments balance recognised in "Other Comprehensive Income/(Loss)" was capitalized.

Interest rate swap agreements exchanging variable interest rates for fixed interest rates are designated and effective as fair value hedges in respect of interest rates. During the periods presented, the hedge was effective in hedging the fair value.

Derivative agreements designated as cash flow hedges

Under interest rate swap agreements, the Group agrees to exchange the differences between fixed and variable rate interest amounts calculated on agreed notional principal amounts. Such agreements enable the Group to mitigate the risk of cash flow exposures on the issued variable rate debt. The fair value of the interest rate swap at the end of the reporting period is determined by discounting the future cash flows using the yield curves, as disclosed below.

In connection with the Project Financing (Note 11) for the construction of Amaralina Star and Laguna Star drillships, the Group has a contractual commitment with the same financial institutions to contract derivatives as hedging instrument of the debt in relation to changes in LIBOR. Accordingly, the Group has swap agreements in connection with the rates, spreads, notional, terms and debt cash flows. The swap agreements were contracted on July 2011 and follow the Project Financing terms.

16. SHAREHOLDERS' EQUITY

a. Share capital

As of March 31, 2015 and December 31, 2014, the Company's share capital amounts to US\$63,200 comprised by 189,227,364 ordinary shares, with no par value, as follows:

Shareholders	Ordinary shares	Rights over the amounts		
		Capital	Share premium	Total
QGOG International	140,293,142	46,857	568,328	615,185
Constellation Coinvestment S.à.r.l.	15,570,123	5,200	63,075	68,275
Constellation Holding S.à.r.l.	17,739,099	5,925	71,861	77,786
CGPE VI L.P.	303,125	101	1,228	1,329
CIPEF VI QGOG S.à.r.l.	<u>15,321,875</u>	<u>5,117</u>	<u>62,069</u>	<u>67,186</u>
Total as of March 31, 2015	<u>189,227,364</u>	<u>63,200</u>	<u>766,561</u>	<u>829,761</u>

The Company's ultimate controlling party is the Queiroz Galvão family.

b. Legal reserve

In accordance with Luxembourg Corporate Law, the shareholders of a société anonyme must allocate 5% of the Company's annual profit of its individual financial information, after deduction of any losses brought forward from previous years, to the minimum legal reserve. Such allocation must consider the Company's individual financial statements prepared in accordance with Luxembourg Generally Accepted Accounting Principles ("LuxGAAP").

The above mentioned requirement will only cease when the legal reserve reaches an amount equivalent to 10% of the Company's issued share capital. Additionally, this reserve may not be distributed in the form of cash dividends, or otherwise, during the Company's existence. The appropriation to legal reserve becomes effective after approval at the general shareholders meeting.

c. Dividend policy

The Company's Board of Directors approved a new dividend policy. The policy sets a regular dividend annually payable, with a minimum payout ratio of 25%, based on the previous year's earnings, subject to: (i) compliance with covenants under the Group's existing financing agreements; (ii) maintaining targeted net debt/EBITDA ratios lower than 4.5:1.0 by the end of 2015, lower than 3.5:1.0 by the end of 2016, and lower than 3.0:1.0 by the end of 2018 and thereafter; and (iii) Board of Directors' approval.

Additionally, any dividends paid by the Company will be subject to a Luxembourg withholding tax rate of 15% (17.65% if the dividend tax is not charged to the shareholder), subject to the exceptions provided by the Luxembourg tax law or by double tax treaties concluded by the Grand Duchy of Luxembourg and the country of the shareholders tax residency.

The withholding tax must be withheld from the gross distribution and paid to the Luxembourg tax authorities.

In December 2014, the Company's Board of Directors resolved that no dividends shall be paid to the shareholders based on the profit for the year ended December 31, 2014.

d. Other Comprehensive Items (OCI)

Cash flow hedging reserve

The hedging reserve consists of the effective portion of cash flow hedging instruments related to hedged financing transactions.

Foreign currency translation adjustments reserve

The currency translation adjustments reserve is used to record exchange adjustments arising from the translation of foreign subsidiaries' financial information.

*Changes in Other Comprehensive Items*

Changes in comprehensive income for the three-month periods ended March 31, 2015 and 2014 are as follows:

	Cash flow hedge fair value adjustments			Share of investments other comprehensive income (loss)	Currency translation adjustments	Total
	Attributable to owners of the Group	Attributable to non-controlling interests	Total cash flow hedge fair value adjustments			
Balance as of December 31, 2013	5,553	4,545	10,098	(7,009)	12,237	15,326
Fair value adjustment on derivative agreements	(144)	(118)	(262)	-	-	(262)
Fair value adjustment on joint ventures' derivative agreements	-	-	-	(2,685)	-	(2,685)
Exchange differences arising during the period	-	-	-	-	1,672	1,672
Balance as of March 31, 2014	<u>5,409</u>	<u>4,427</u>	<u>9,836</u>	<u>(9,694)</u>	<u>13,909</u>	<u>14,051</u>
Balance as of December 31, 2014	1,208	990	2,198	(15,330)	3,032	(10,100)
Fair value adjustment on derivative agreements	(3,132)	(2,563)	(5,695)	-	-	(5,695)
Fair value adjustment on joint ventures' derivative agreements	-	-	-	(3,515)	-	(3,515)
Fair value adjustment on associates' financial assets	-	-	-	(30)	-	(30)
Exchange differences on investments arising during the period	-	-	-	820	-	820
Exchange differences arising during the period	-	-	-	-	(12,188)	(12,188)
Balance as of March 31, 2015	<u>(1,924)</u>	<u>(1,573)</u>	<u>(3,497)</u>	<u>(18,055)</u>	<u>(9,156)</u>	<u>(30,708)</u>

e. Non-controlling interests

The Group's unaudited condensed consolidated interim financial statements include Amaralina Cooperatief U.A., Amaralina Star Ltd., Laguna Cooperatief U.A., Laguna Star Ltd., Manisa Serviços de Petróleo Ltda., Palase C.V., Podocarpus C.V. and Tarsus Serviços de Petróleo Ltda., whose share capital is 55% owned by the Group. The portion of such entities total shareholders' equity not attributable to the Group is included in non-controlling interests.

f. Profit per share

Basic and diluted profit per share amounts are calculated by dividing the profit for the year, all from continuing operations, attributable to ordinary equity holders of the parent by the Company's weighted average number of ordinary shares outstanding during the period.

	Three-month period ended March 31,	
	<u>2015</u>	<u>2014</u>
Profit attributable to the owners of the Group	78,177	77,378
Weighted average number of ordinary shares for calculation purposes (thousands of shares) (*)	<u>189,227</u>	<u>189,227</u>
Basic and diluted profit per share	<u>0.41</u>	<u>0.41</u>

(\*)The Group has no potential dilutive shares. Therefore, diluted profit per share is equal to basic profit per share.

17. NET OPERATING REVENUE

The Group's operating revenue is mainly derived from charter agreements and related drilling services. As of March 31, 2015 and 2014, Petrobras has accounted for 99% and 98%, respectively, of total revenues.

Net operating revenue is presented after the following items:

	Three-month period ended March 31,	
	<u>2015</u>	<u>2014</u>
Operating revenue	267,550	269,139
Taxes levied on revenue:		
Social Integration Program (PIS)	(947)	(996)
Social Investment Program (COFINS)	(4,369)	(4,589)
Services Tax (ISS)	<u>(1,184)</u>	<u>(1,168)</u>
Net operating revenue	<u>261,050</u>	<u>262,386</u>

## 18. COST OF SERVICES AND OPERATING EXPENSES

Costs and expenses by nature	Three-month period ended March 31,					
	2015			2014		
	Cost of services	General and administrative expenses	Total	Cost of services	General and administrative expenses	Total
Payroll, charges and benefits	(48,063)	(6,094)	(54,157)	(52,487)	(7,673)	(60,160)
Depreciation	(47,743)	(228)	(47,971)	(47,350)	(238)	(47,588)
Materials	(16,458)	-	(16,458)	(14,881)	-	(14,881)
Maintenance	(14,445)	-	(14,445)	(15,099)	-	(15,099)
Insurance	(4,873)	-	(4,873)	(4,931)	-	(4,931)
Other <sup>(1)(2)</sup>	<u>(5,907)</u>	<u>(1,998)</u>	<u>(7,905)</u>	<u>(9,018)</u>	<u>(3,966)</u>	<u>(12,984)</u>
	<u>(137,489)</u>	<u>(8,320)</u>	<u>(145,809)</u>	<u>(143,766)</u>	<u>(11,877)</u>	<u>(155,643)</u>

(1) Cost of services: mainly comprised of rig boarding transportation; lodging and meals; data transmission; among others.

(2) General and administrative expenses: mainly comprised of transportation; information technology services; external legal advisors; auditors; advisory services; among others.

## 19. OTHER INCOME (EXPENSES), NET

	Three-month period ended March 31,	
	2015	2014
Revenue from sales of PP&E	164	12
Property rental	77	84
Other	24	1
Other income	<u>265</u>	<u>97</u>
Penalties	(1,517)	-
Cost of PP&E sold	<u>(37)</u>	<u>-</u>
Other expenses	<u>(1,554)</u>	<u>-</u>
Total expenses, net	<u>(1,289)</u>	<u>97</u>

## 20. FINANCIAL EXPENSES, NET

	Three-month period ended March 31,	
	2015	2014
Interest on short-term investments	805	1,076
Financial income from related parties	1,891	4,131
Other financial income	121	44
Financial income	<u>2,817</u>	<u>5,251</u>
Financial charges on loans and financings	(24,205)	(27,451)
Derivative expenses	(2,289)	(3,193)
Financial expenses from related parties	(494)	(1,179)
Other financial expenses	<u>(1,272)</u>	<u>(1,377)</u>
Financial expenses	<u>(28,260)</u>	<u>(33,200)</u>
Foreign exchange rate variations, net	<u>158</u>	<u>(219)</u>
Financial expenses, net	<u>(25,285)</u>	<u>(28,168)</u>



## 21. TAXES

Most of the entities comprising the Group are located in jurisdictions that do not charge income tax. Certain of the Group's entities operate in the Netherlands and Luxembourg, but none of these reported taxable income for the periods presented.

QGOG operates in Brazil, and the related taxes and contributions are as follows:

### a) Recoverable taxes

	March 31, 2015	December 31, 2014
Income tax (IRPJ) and social contribution (CSLL) <sup>(1)</sup>	-	<u>3,284</u>
Total	<u>-</u>	<u>3,284</u>

(1) Mainly refers to withholding taxes on Petrobras invoices.

### b) Taxes payables

	March 31, 2015	December 31, 2014
Income tax (IRPJ) and social contribution (CSLL)	6,417	157
Services Tax (ISS)	1,787	2,250
Social Integration Program ("PIS") and Social Investment Program ("COFINS")	<u>111</u>	<u>968</u>
Total	<u>8,315</u>	<u>3,375</u>

### c) Deferred tax assets

	March 31, 2015	December 31, 2014
Income tax (IRPJ) and social contribution (CSLL) <sup>(*)</sup>	6,171	5,453
Taxes on revenue (PIS/COFINS/ISS)	<u>893</u>	<u>1,350</u>
Total	<u>7,064</u>	<u>6,803</u>
Current	867	1,056
Non-current	6,197	5,747

(\*) Refer to temporary differences and tax loss carryforwards, due to the fact that since 2014 became possible to make a reliable estimate of taxable profits arising from QGOG's operations aiming the compensation of tax loss carryforwards in the foreseeable future.

### d) Effect of income tax results

The tax rate used for the three-month periods ended March 31, 2015 and 2014 reconciliations below refers to the corporate nominal tax rate of 34% in accordance with the Brazilian tax law, jurisdiction in which QGOG (Brazilian subsidiary) operates.

The amounts reported as income tax expense in the consolidated statement of operations are reconciled from the nominal rate to the effective rate as follows:

	Three-month period ended March 31,	
	<u>2015</u>	<u>2014</u>
Profit before taxes	91,274	79,909
Income tax and social contribution at nominal rate	(9,212)	869
Adjustments to derive effective tax rate:		
Non-deductible expenses	(1,307)	(567)
Tax loss carryforwards recognized	1,718	-
Other	(159)	9
Taxes	<u>(8,960)</u>	<u>311</u>
Current taxes	(10,678)	311
Deferred taxes	1,718	-
Effective tax rate	9.8%	0.4%

## 22. FINANCIAL INSTRUMENTS

### a) General considerations

The Group manages its capital to ensure that its entities will be able to continue as a going concern while maximizing the return to shareholders through the optimization of debt and equity mix.

The Group's main financial instruments are cash and cash equivalents, short-term investments, restricted cash, trade and other receivables and payables, loans and financings and derivatives, as follows:

Category	March 31, 2015		December 31, 2014		
	Carrying amount	Fair value	Carrying amount	Fair value	
<u>Financial assets</u>					
Cash and bank deposits	Loans and receivables	70,722	70,722	74,097	74,097
Cash equivalents	Fair value through profit or loss	117,424	117,424	72,982	72,982
Short-term investments	Fair value through profit or loss	200,166	200,166	83,470	83,470
Restricted cash	Fair value through profit or loss	11,924	11,924	37,842	37,842
Trade and other receivables	Loans and receivables	89,675	89,675	102,313	102,313
Receivables from related parties	Loans and receivables	335,821	335,821	337,002	337,002
<u>Financial liabilities</u>					
Loans and financings	Other financial liabilities	2,469,804	2,116,876	2,434,727	2,170,421
Trade and other payables	Other financial liabilities	31,980	31,980	30,650	30,650
Payables to related parties	Other financial liabilities	270,829	270,829	268,125	268,125
Derivatives	Fair value through profit or loss	49,790	49,790	50,193	50,193

The Group has no forward agreements, options, *swaptions* (swaps with non-exercise options), flexible options, derivatives embedded in other products or exotic derivatives. The Group does not conduct derivative transactions for speculative purposes, thus reaffirming its commitment to a policy of conservative cash management.

Management believes that there is no significant risk of short-term fluctuations in the day-rates on its charter agreements due to the respective agreements being long-term.

Except for loans and financings, Management also believes that the carrying amounts of the remaining financial instruments are not significantly different from their fair value as it considers that interest rates on such instruments are not significantly different from market rates.

Additionally, the amounts of trade accounts receivables and payables reported in these unaudited condensed consolidated interim financial statements do not significantly differ from their fair value due to the turnover of these accounts being of approximately 30 days.

b) Fair value hierarchy

IFRS 7 - *Financial Instruments: Disclosures* defines fair value as the value or price that would be received to sell an asset or paid to transfer a liability in a transaction between participants in an ordinary market on the measurement date. IFRS 7 clarifies that fair value shall be based on assumptions that market participants use when measuring a value or price for an asset or a liability and establishes a hierarchy that prioritizes the information considered to develop those assumptions.

The fair value hierarchy gives greater weight to available market information (i.e. observable data) and less weight to information related to data without transparency (i.e. unobservable data). Additionally, it requires that the entity consider all aspects of nonperformance risk, including the entity's own credit, to measure the fair value of a liability.

IFRS 7 also establishes a 3-levels hierarchy to be used in order to measure and disclose the fair value. A categorization tool in the fair value hierarchy is based on the lowest level of "input" significant for its measurement. A description of the 3 hierarchical levels is as follows:

Level 1 - The "inputs" are determined based on prices in an active market for identical assets or liabilities at the measurement date. Additionally, the entity must be able to trade in an active market and the price cannot be adjusted by the entity.

Level 2 - The "inputs" are other than prices as determined by Level 1 that are observable for the asset or liability, directly or indirectly. The "inputs" level include two prices in an active market for similar assets or liabilities, prices in an inactive market for identical assets or liabilities, or "inputs" that are observable or can corroborate the observation of market data by correlation or other means for substantially every part of the asset or liability.

Level 3 - The "inputs" are those unobservable from minor or no market activity. These "inputs" represent management's best estimates as market participants could assign value or price for these assets or liabilities. Generally, the assets and liabilities are measured using Level 3 pricing models, discounted cash flow, or similar methods that require significant judgments or estimates.

According to IAS 39 - *Financial Instruments: Recognition and Measurement*, the Group measures its cash equivalents, short-term investments, restricted cash and derivative financial instruments at fair value. Cash equivalents, short-term investments and restricted cash are classified as Level 1 since they are measured using market prices for identical instruments. Derivative financial instruments are classified as Level 2 since they are measured using similar financial instruments.

#### Financial instruments fair value measurement

The Group assessed the evaluation of financial assets and liabilities in relation to its market values or its effective recoverable amount, using available information and best practices and methodologies of market valuations for each situation.

Market data information interpretation about methodologies choice requires a higher level of judgment and establishment of reasonable estimate to achieve the fair value. Consequently, the estimate presented may not indicate, necessarily, the amounts that maybe obtained in current market. The use of different hypothesis to fair values calculation can result in significant effect in obtained values.

The method used to assess the derivatives fair value, represented exclusively by interest rate swaps, was obtained by inputs that are observable or can corroborate the observation of market data by correlation or other means for substantially every part of the asset or liability.

For securities that has quoted price in active markets (Project Bond and Corporate Bond), the fair value is equal to its last quoted price at the balance sheet date obtained from Bloomberg, multiplied by the number of notes in circulation.

For agreements where the current conditions are similar to those in which they originated or that do not have parameters for quotation or contract, fair values are similar to its carrying amounts.

In the evaluation carried out for the purpose of determining the fair value of assets and liabilities measured at amortized cost method, it was not considered the applicability of this adjustment, due to the following reasons:

- ✓ Trade and other receivables and payables: very short-term of maturity; and
- ✓ Loans and financings (other than the Project Bond and the Corporate Bond) and related parties: the fair value information has not been disclosed for these instruments because fair value cannot be measured reliably.

#### c) Financial risk management

The Group is exposed to liquidity, credit and market risks. Management believes that the Group's principal market risk is its exposure to interest rate risk, as discussed below.

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for managing the Group's short and long-term funding and liquidity management requirements. The Group manages liquidity risk by a combination of maintaining adequate reserves, banking facilities and reserve borrowing facilities (Note 11) and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group cultivates relationships with specific lenders and continually monitors its funding needs together with these lenders. The Group manages the majority of its long-term financing on a project-by-project basis. Such financing is arranged as required to support the Group's operations and growth.

As of March 31, 2015 and December 31, 2014, the Group presents working capital deficiency in the amount of US\$214,222 and US\$418,555, respectively, mainly as a result of its current investments. The Group's strategy in relation to this working capital deficiency is disclosed in Note 1.

The following table details the Group's liquidity analysis for its non-derivative financial liabilities and related derivative financial instruments. The table has been drawn up based on the undiscounted contractual cash inflows and outflows for the financial instruments.

When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period:

<u>Period</u>	<u>Loans and financings</u>	<u>Derivatives</u>	<u>Trade payables</u>	<u>Related parties</u>	<u>Total</u>
2015	359,179	21,082	31,980	9,388	421,629
2016	428,412	17,384	-	5,493	451,289
2017	770,447	7,245	-	1,690	779,382
2018	529,306	2,727	-	5,390	537,423
2019	743,750	-	-	64,828	808,578
After 2019	-	-	-	412,203	412,203
<b>Total</b>	<b><u>2,831,094</u></b>	<b><u>48,438</u></b>	<b><u>31,980</u></b>	<b><u>498,992</u></b>	<b><u>3,410,504</u></b>

### Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially subject the Group to concentrations of credit risk are primarily cash and cash equivalents, trade receivables and receivables from related parties. It is the Group's practice to place its cash and cash equivalents in time deposits at financial institutions with high credit ratings or at mutual funds, which invest exclusively in high quality money market instruments. The Group limits the exposure amount to any one financial institution to minimize its credit risk exposure.

For the three-month periods ended March 31, 2015 and 2014 Petrobras has accounted for 99% and 98%, respectively, of total revenues. Therefore, management considers that the credit risk arising from this concentration is minimal considering that Petrobras is a government controlled entity with a history of full payment and of being respectful of contractual rights.

Petrobras is an independent third party of the Group and has valid agreements until late 2034.

As disclosed in Note 1, following the press release issued by Petrobras on December 29, 2014, QGOG, one of the Company's subsidiaries, received a notice from Petrobras which temporarily suspends QGOG from entering into direct contracts and participating in bids for new contracts. This notice currently does not impact any of the existing contracts between QGOG and Petrobras. QGOG disagrees with this temporary suspension and has already contested this determination in order to reverse it.

The majority of the fleet of the Group is hired under long-term agreements. Moreover, the Group owns a state-of-the-art offshore fleet which can operate globally and is seeking client diversification and internationalization as part of its strategy, capitalizing on its strong operational track record.

#### Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and variable interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and variable rate borrowings, and by the use of interest rate swap agreements. The Group is exposed to fluctuations in US\$ LIBOR interest rates charged on its loans and financings as disclosed in Note 11. As discussed in Note 15, the Group manages this interest rate risk by eliminating variable-to-fixed interest rate swaps.

As a result of the swaps in place at the balance sheet date, the Group's exposure to changes in interest rate expense as a result of fluctuations in US\$ LIBOR is in respect of changes in fair values of the respective interest rate swaps. As discussed in Note 15, these interest rate swaps are held at fair value in the statement of financial position. The fair value of these instruments is affected by factors including market expectations for future changes to US\$ LIBOR. Changes to these expectations affect the value of the Group's swaps, producing effects in the statement of operations and statement of comprehensive income unless such changes are capitalized.

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period and considers the effects of an increase or decrease of 0.1 percent on outstanding loans and financings and the effects of either an increase or a decrease of 0.1 percent in the interest curve (LIBOR), and its impacts in the swaps mark to market on the date of the unaudited condensed consolidated interim financial statements. For variable rate liabilities (US\$ LIBOR plus spread), the analysis is prepared assuming the liability amount outstanding at the end of the reporting period was outstanding for the entire period. A 0.1 percent increase or decrease in US\$ LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the US\$ LIBOR had been 0.1 percent higher/lower and all other variables were held constant, the Group's comprehensive income (loss) would be impacted as follows:

Risk: interest rate variation	March 31, 2015	March 31, 2015	
		Scenario I Increase of 0.1% in interest rate	Scenario II Decrease of 0.1% in interest rate
	US\$	Increase / (decrease) in P&L	Increase / (decrease) in P&L
Loans and financings (Note 11)	1,164,092	(1,164)	1,164
Derivative instruments (Note 15)	<u>(1,154,148)</u>	<u>1,154</u>	<u>(1,154)</u>
Total	<u>9,944</u>	<u>(10)</u>	<u>10</u>
		Increase / (decrease) in OCI	Increase / (decrease) in OCI
Hedge derivatives (Note 15)	(697,066)	697	(697)

#### d) Capital management

The Group manages its capital structure, which consists of the relation between financial debt and shareholders' equity in accordance with best market practices, as follows:

	March 31, 2015	December 31, 2014
Loans and financings <sup>(a)</sup>	2,469,804	2,434,727
Cash transactions <sup>(b)</sup>	<u>(400,236)</u>	<u>(268,391)</u>
Net debt	2,069,568	2,166,336
Shareholders' equity <sup>(c)</sup>	<u>2,291,369</u>	<u>2,228,072</u>
Net debt ratio <sup>[(a) + (b)] ÷ [(a) + (b) + (c)]</sup>	<u>47%</u>	<u>49%</u>

(a) Consider all loans and financings.

(b) Includes cash and cash equivalents, short-term investments and restricted cash.

(c) Includes all shareholders' equity accounts.

## 23. INSURANCE

As of March 31, 2015 and December 31, 2014, major assets or interests covered by insurance policies and respective amounts are summarized below:

	March 31, 2015	December 31, 2014
Civil liability	2,193,562	2,199,419
Operating risks	5,295,313	5,394,122
Operational headquarter and others	<u>13,470</u>	<u>15,439</u>
Total	<u>7,502,345</u>	<u>7,608,980</u>

The Group's practice related to its insurance policies is to contract solid insurance companies with high reputation in this market.

## 24. PENSION PLAN

The Group, through its subsidiary QGOG, offers a private defined contribution pension plan to all employees and management. Under the pension plan, up to 12% of the monthly salary is contributed by the employee and up to 6.5% by the employer, according to the employee's seniority level. The pension plan is managed by Bradesco Vida e Previdência S.A.. When employees choose to abandon the plan before the end of payments, the contributions still payable are reduced to the amount already paid by QGOG. Therefore, QGOG's only obligation to the Pension Plan is to make its specified contributions.

For the three-month periods ended March 31, 2015 and 2014, contributions payable by QGOG at rates specified by the plan rules amounted to US\$493 and US\$560, respectively.

## 25. ADDITIONAL INFORMATION ON CASH FLOWS

	Three-month period ended March 31,	
	<u>2015</u>	<u>2014</u>
Non-cash investing activities:		
Recognition (derecognition) of accrued costs of the drillship under construction (Note 12)	(2,367)	127,717
Borrowing costs capitalized, net of hedging adjustments (Notes 10 and 11)	<u>3,799</u>	<u>3,280</u>
	<u>(1,432)</u>	<u>130,997</u>

## 26. SEASONALITY

There is no seasonality impact over the Group's charter agreements and related drilling services.

## 27. SUBSEQUENT EVENTS

Gold Star offshore drilling rig scheduled 5-year survey

On March 20, 2015, Gold Star offshore drilling rig interrupted its activities in order to execute its scheduled 5-year survey and on May 8, 2015, it returned to operate under the current charter and service agreement with Petrobras.

QG-V onshore drilling rig charter and service agreement expiration

On April 15, 2011, the Group started the operations of QG-V onshore drilling rig under a 4-year term charter and service agreement with Petrobras. Such agreement reached its expiration date on April 14, 2015 and the Group is currently seeking new clients.



CADE excluded QGOG from Setal's leniency agreement

On April 28, 2015 the Brazilian Administrative Counsel of Economic Defense (*Conselho Administrativo de Defesa Econômica – CADE*), the Brazilian antitrust regulator, corrected the leniency agreement disclosed on March 20, 2015 that it had entered into with Setal Engenharia e Construções, SOG Óleo e Gás and certain affiliated individuals, together with related legal documentation, due to a material error, in order to exclude any and all references to Queiroz Galvão Óleo e Gás S.A. in all such documents.

Brava Star drillship loan facility disbursement

On May 26, 2015, the Company disbursed US\$475 million in Limited Recourse Project Finance, which was signed on November 21, 2014, in order to finance the construction of the Brava Star drillship (Note 11). The funds were disbursed in connection to milestone payments based upon the delivery of the drillship by Samsung and will be repaid over a 5-year period bearing interest rate at LIBOR plus 2% p.a.

Furthermore, Brava Star drillship is expected to be delivered by Samsung by May 29, 2015 and the start of operations is expected to occur by August 2015.

28. APPROVAL OF UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved by the Company's management and authorized for issue on May 27, 2015.